THE PRESIDENT'S FISCAL YEAR 2019 BUDGET

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIFTEENTH CONGRESS

SECOND SESSION

HEARING HELD IN WASHINGTON, D.C., FEBRUARY 14, 2018

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COMMITTEE ON THE BUDGET

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THE PRESIDENT'S FISCAL YEAR 2019 BUDGET

WEDNESDAY, FEBRUARY 14, 2018

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The Committee met, pursuant to call, at 10:00 a.m., in Room 1334, Longworth House Office Building, Hon. Steve Womack [Chairman of the Committee] presiding.

Present: Representatives Womack, Black, Diaz-Balart, Cole, McClintock, Sanford, Palmer, Renacci, Johnson, Lewis, Smucker, Ferguson, Grothman, Woodall, Arrington, Smith, Yarmuth, Lee, Lujan Grisham, Moulton, Higgins, DelBene, Wasserman Schultz, Jayapal, Carbajal, Jackson Lee, Jeffries, and Khanna.

Chairman WOMACK. Good morning. The hearing will come to order. Welcome to the Committee on the Budget's hearing on the President's fiscal year 2019 budget. Today we will hear testimony from the director of the Office of Management and Budget, the honorable Mick Mulvaney. During our hearing, we will hear directly from the director of OMB, and we appreciate you being with us here today, Mr. Director. Your insight will be very helpful in our understanding.

Receipt of the President's budget each year marks the beginning of the Federal budgeting process, or budget season as we like to call it, and the White House officially kicked it off on Monday. While Congress ultimately controls the purse strings, the President's budget request is still an important document for lawmakers to consider along the way.

Each fiscal year, the administration's budget documents the President's policy and spending priorities. These recommendations to Congress are important for the Budget Committees in both chambers to consider as work crafting the budget resolution begins in earnest.

Without question, there are plenty of worthwhile ideas included in the President's budget this year. First, I am encouraged that the administration prioritizes and boosts the investment in our national defense. With mounting threats to our security both at home and abroad, it is critical that we provide for a strong and capable military. And we must ensure our warfighters have the necessary resources and training to complete the missions with which they are tasked today and those with which they will be tasked in the future.

I am also glad to see the administration confront head on the issue of opioid abuse, which has turned into a nationwide epidemic. More than 115 Americans die every single day from opioid overdoses, so we can all agree this is a serious, rampant problem that can no longer be ignored.

Additionally, the administration's budget request calls for enhancement in security at America's borders, reflecting President Trump's commitment to address our broken immigration system. And there is no question that America's infrastructure is in dire need of attention.

This request also proposes funding for an infrastructure overhaul. More detail on the initiative was also released earlier in the week. I welcome President Trump's plan to cure decades of neglect and ultimately build a safe, fast, reliable, and modern infrastructure to meet the needs of the American people and the economy.

Last in this list of examples but certainly not least, I appreciate that the President's budget, an American budget, acknowledges fiscal reality and takes significant steps toward reducing the deficit. The President's budget projects $3 trillion in deficit reduction, including $1.7 trillion in mandatory savings, bringing us to within 1 percent of GDP in the 10-year window.

The budget emphasizes a need for efficient, effective, and accountable use of taxpayer dollars and takes real steps to target waste, fraud, and abuse in government. These are all good things for our country, and we will certainly consider embracing the President's best ideas.

However, it is important to remember that even with a positive economic impact of tax reform that is being felt across the Nation by hardworking Americans, the financial state of our country is still undeniably grave, and the President's budget certainly highlights this sobering reality.

And while there are many worthy policy proposals in this budget request, it is also very telling of our financial situation that the proposal does not get to balance. It should always be the goal to balance our books. Every year we neglect to do so, the task becomes more daunting and more difficult.

In order to slow down and ultimately pay down our Nation's unsustainable debt, we have to make some tough choices. And so, our work writing the budget resolution begins within the House Budget Committee. Balance does remain the ultimate goal. However, today and in the coming days our Committee will carefully consider the President's suggestions and work to incorporate many of his budget ideas.

Thank you for this initial time, and with that I will yield to the Ranking Member, the gentleman from the Commonwealth of Kentucky, Mr. Yarmuth.

[The prepared statement of Chairman Womack follows:]

WOMACK OPENING STATEMENT:

THE PRESIDENT'S FISCAL YEAR 2019 BUDGET HEARING

Washington, D.C., Wednesday, February 14, 2018

As prepared for delivery – House Budget Committee Chairman Steve Womack

Good morning and welcome to the House Budget Committee's hearing on President Trump's budget request for fiscal year 2019.

During our hearing, we will hear directly from Mick Mulvaney, Director of the Office of Management and Budget.

Thanks for being with us today, Director Mulvaney. Your insight will be very helpful in our understanding.

Receipt of the President's budget each year marks the beginning of the federal budgeting process, or "budget season" as we call it, and the White House officially kicked it off earlier this week.

While Congress ultimately controls the purse strings, the President's budget request is still an important document for lawmakers to consider along the way.

Each fiscal year, the Administration's budget documents the President's policy and spending priorities.

These recommendations to Congress are important for the Budget Committees in both chambers to consider as work crafting a budget resolution begins in earnest.

Without question, there are plenty of worthwhile ideas included in the President's budget request this year.

First, I am encouraged that the Administration prioritizes and boosts the investment in our national defense.

With mounting threats to our security both at home and abroad, it is critical that we provide for a strong and capable military.

And we must ensure our warfighters have the necessary resources and training to complete the missions with which they are tasked today and those with which they will be tasked in the future.

I am also glad to see the Administration confront head on the issue of opioid abuse, which has turned into a nationwide epidemic.

More than 115 Americans die every single day from opioid overdose, so we can all agree this is a serious, rampant problem that can no longer be ignored.

Additionally, the Administration's budget request calls for enhancements in security at America's borders, reflecting President Trump's commitment to address our broken immigration system.

There is no question that America's infrastructure is in dire need of attention.

This request also proposes funding for an infrastructure overhaul – more detail on the initiative was also released earlier this week.

I welcome President Trump's plan to cure decades of neglect and ultimately build a safe, fast, reliable, and modern infrastructure to meet the needs of the American people and the economy.

Last in this list of examples but certainly not least, I appreciate that the President's budget – *An American Budget* – acknowledges fiscal reality and takes significant steps towards reducing the deficit.

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The budget emphasizes the need for efficient, effective, and accountable use of taxpayer dollars and takes real steps to target waste, fraud, and abuse in government.

These are all good things for our country, and we will certainly consider embracing the President's best ideas.

However, it's important to remember that even with the positive economic impact of tax reform that is being felt across the nation by hardworking Americans, the financial state of our country is still undeniably grave.

And the President's budget certainly highlights this sobering reality.

While there are many worthy policy proposals in this budget request, it's also very telling of our financial situation that the proposal does not get to balance.

It should always be the goal to get a budget to balance.

Every year we neglect to do so, the task becomes more daunting and difficult.

In order to slow down and ultimately pay down our nation's unsustainable debt, we have to make tough choices.

And so as our work writing the budget resolution begins within the House Budget Committee, balance remains our goal.

However, today and in the coming days, our committee will carefully consider the President's suggestions and work to incorporate many of his budget ideas.

Thank you, and with that, I yield to the Ranking Member, Mr. Yarmuth.

Mr. YARMUTH. Thank you very much, Mr. Chairman. Welcome, Director Mulvaney. I appreciate your coming here to testify on the President's budget and to answer our questions, and I would like to publicly thank you as well for coming to meet with our Democratic members yesterday. I know it was valuable for us and I hope it was good for you too.

Last year when we received the President's budget for 2018, I described it as a betrayal with a long list of broken promises, which it was. This year, I am going to start with the positive. In this budget, the Trump administration has done something extraordinary. They have finally realized that you cannot balance the Federal budget by cutting taxes, you cannot balance the Federal budget by cutting spending, and you cannot balance the Federal budget through gimmicks. God knows we have tried all of those.

So with this new acknowledgement or enlighten, whichever the case may be, maybe there is hope that we can work together in a bipartisan way to advance a responsible budget that truly addresses the needs and priorities of the American people, but it cannot start with the values reflected in the rest of the Trump budget.

Let's be clear: this is an irresponsibly extreme budget that reflects a disdain for working families as well as a disheartening lack of vision for a stronger society. This budget calls for massive cuts to healthcare, antipoverty programs, and investments in economic growth all to blunt the deficit-exploding impact of the President's tax cuts. It takes aim at the bipartisan budget agreement the President signed into law just last week, cutting non-defense spending in 2019 by at least $57 billion below the level called for in the 2-year agreement.

This is funding that would go to veterans' programs, law enforcement, diplomatic operations, education, research, and other investments to boost jobs, revitalize communities, and improve economic security.

Beyond 2019, the budget sets nondefense spending on a steep and steady downward trajectory so that by 2028, nondefense discretionary funding would be cut by 33 percent below the bipartisan budget agreement level for this year, and that is without accounting for inflation. That is such a dangerously low level of funding, it would leave the government unable to carry out its basic functions.

The budget, then, goes directly after mandatory spending, brutally targeting programs that help Americans living paycheck to paycheck. It cuts $263 billion from mandatory programs that safeguard basic living standards, including a $214 billion cut to the Supplemental Nutrition Assistance Program that protects 44 million people including 20 million children from going hungry each night.

It takes $72 billion from disability programs, including Social Security and more than half $1 trillion from Medicare, a full betrayal of the promises the President made to the American people not to touch either program.

And despite the public's outright rejection last summer, the President's budget continues the Republican obsession with dismantling and destabilizing healthcare for millions of Americans. It makes another attempt to repeal the Affordable Care Act and replace it with an already-rejected plan that will leave millions more people without meaningful health coverage and weakened protections for people with pre-existing conditions.

As part of this continuing attack, the budget cuts $1.4 trillion from Medicaid, jeopardizing care for seniors in nursing homes, children with disabilities, and low-income families.

Even where this budget claims to increase investments, it fails. This proposal pretends to make infrastructure a priority with $200 billion in Federal funding, a figure that falls embarrassingly short of our Nation's infrastructure needs. But then the budget simultaneously cuts $122 billion in highway programs while severely cutting or eliminating other infrastructure investments our cities and states need.

But even after all of these reckless cuts, the budget cannot hide the true devastation of the tax cuts, so it once again relies on unrealistic economic assumptions to make its deficit projections look less ominous. It counts $800 billion in deficit reduction from some magical policy growth effects, even though independent economists predict those high growth rates are not sustainable given trends in our labor supply.

So while this budget includes some honesty by acknowledging that their tax cuts did not pay for themselves, it turns to gimmicks to hide the full consequences of these cuts while decimating critical investments the American people need.

The Federal budget is about choices, choices that have major impacts on the American people. Not a single millionaire would have gone hungry without the new tax cuts my Republican colleagues just gave them, but many American families will not be able to put food on the table under this budget. Others would not be able to afford healthcare or housing or to heat their homes in the winter. These are choices my Republican colleagues are making and they are reprehensible.

Our task here is to build a stronger society and to do what we need to do that, we need investments in education, healthcare, job training, innovation, infrastructure, and more. If you believe America is better off by gutting these investments, you fundamentally misunderstand the true source of our Nation's strength. I yield back.

[The prepared statement of Mr. Yarmuth follows:]

YARMUTH OPENING STATEMENT:

THE PRESIDENT'S FISCAL YEAR 2019 BUDGET HEARING

Washington, D.C., Wednesday, February 14, 2018

As prepared for delivery – House Budget Committee Chairman Steve Womack

Thank you Mr. Chairman, and welcome Director Mulvaney. I appreciate you coming here to testify on the President's budget and to answer our questions.

Last year, when we received the President's budget for 2018, I described it as a betrayal, with a long list of broken promises. Which it was. This year I'm going to start out with the positive. In this budget, the Trump Administration has done something extraordinary. They have finally realized that you can't balance the federal budget by cutting taxes. That you can't balance the federal budget by cutting spending. And that you can't balance the federal budget through gimmicks – god knows you gave that your best effort. So with this new acknowledgement or enlightenment, which ever it is, maybe there is hope that we can work together in a bipartisan way to advance a responsible budget that truly addresses the needs and priorities of the American people. But it can't start with the values reflected in the rest of the Trump budget.

Let's be clear. This is an irresponsibly extreme budget that reflects a disdain for working families, as well as a disheartening lack of vision for a stronger society. This budget calls for massive cuts to health care, anti-poverty programs, and investments in economic growth—all to blunt the deficit-exploding impact of the President's tax cuts.

It takes aim at the Bipartisan Budget Agreement (BBA) the President signed into law just last week, cutting nondefense funding in 2019 by at least $57 billion below the level called for in the two-year agreement. This is funding that would go to veterans' programs, law enforcement, diplomatic operations, education, research, and other investments to boost jobs, revitalize communities, and improve economic security.

Beyond 2019, the budget sets nondefense funding on a steep and steady downward trajectory so that by 2028 NDD funding would be cut by 33 percent below the BBA level for this year (and that is without accounting for inflation). That is such a dangerously low level of funding it would leave the government unable to carry out its basic functions.

The budget then goes directly after mandatory spending, brutally targeting programs that help Americans living paycheck to paycheck. It cuts $263 billion from mandatory programs that safeguard basic living standards, including a $214 billion cut to the Supplemental Nutrition Assistance Program that protects 44 million — including 20 million children—from going hungry each night. It takes $72 billion from disability programs, including Social Security, and more than $0.5 trillion from Medicare — a full betrayal of the promises the President made to the American people not to touch either program.

And despite the public's outright rejection last summer, the President's budget continues the Republican obsession with dismantling and destabilizing health care for millions of Americans. It makes another attempt to repeal the Affordable Care Act and replace it with an already rejected plan that will leave millions more people without meaningful health coverage and weaken protections for people with pre-existing conditions. As part of this continuing attack, the budget cuts $1.4 trillion from Medicaid, jeopardizing care for seniors in nursing homes, children with disabilities, and low-income families.

Even where this budget claims to increase investments, it fails. This proposal pretends to make infrastructure a priority with $200 billion in federal funding, a figure that falls embarrassingly short of our nation's infrastructure needs. But then the budget simultaneously cuts $122 billion in highway programs while severely cutting or eliminating other infrastructure investments our cities and states need.

But even after all of these reckless cuts, the budget still can't hide the true devastation of the tax cuts, so it once again relies on unrealistic economic assumptions to make its deficit projections look less ominous. It counts $800 billion in deficit reduction from some magical policy growth effects; even though independent economists predict these high growth rates are not sustainable given trends in our labor supply.

So while this budget includes some honesty by acknowledging that their tax cuts didn't pay for themselves, it turns to gimmicks to hide the full consequences of these cuts, while decimating critical investments the American people need.

The federal budget is about choices - choices that have major impacts on the American people. Not a single millionaire would have gone hungry without the new tax cuts my Republican colleagues just gave them, but many American families will not be able to put food on the table under this budget. Others won't be able to afford health care or housing or to heat their homes in the winter. Those are choices my Republican colleagues are making – and they are reprehensible.

Our task here is to build a stronger society – and to do that we need investments in education, health care, job training, innovation, infrastructure, and more. If you believe America is better off by gutting these investments you fundamentally misunderstand the true source of our nations' strength.

Chairman WOMACK. I thank the gentleman. In the interest of time, if other members have opening statements they would like to make, I ask that you submit them for the record.

Chairman WOMACK. And now, I would like to introduce and recognize the director of the Office of Management and Budget, Director Mulvaney. We appreciate your time today, Mr. Director. The Committee has received your written statement. It will be made part of the formal hearing record. You will have 10 minutes for your opening remarks and the floor is yours.

STATEMENT OF MICK MULVANEY, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. MULVANEY. Thank you, Chairman. Thank you, Ranking Member Yarmuth, former Chairwoman Black. It is good to be back at the Committee. Thank you very much for having me, giving me the opportunity today to talk a little bit about the President's budget. I am not going to read the opening statement that we have submitted for the record. I am going to just talk very briefly about sort of an introduction, then we will move straight to your questions.

When I was before you last year, it was an unusual year. We had sort of broken the budget into two pieces. We had a skinny budget and a discretionary budget only first, and then sort of a fuller budget later in last spring. That is not unusual in a transition year.

This year has been another unusual year in that the Congress and the White House negotiated and signed a caps deal as recently as, I think, Friday afternoon or early Friday morning, which as you can imagine threw all of the budget process in a good bit of turmoil.

So, what we have actually brought you today is almost two budgets. What we have submitted to Congress is an addendum to the 2018 budget, which purports to take the budget we had previously submitted to you in the spring and bring up the spending to the levels of the caps deal that was executed a couple days ago.

In addition, we have also sent you the original 2019 budget we were working on until Friday that was written to last year's caps level. I believe it was 1091 or 1092. However, that changed as well. We have decided not to write an addendum to the 2019 budget that takes us all the way up to the caps, but instead spends less than the caps. Why is that? Because this is, as everyone is quick to point out, a messaging document from the administration to the legislature.

And what is the message by doing those two budgets? A couple different messages. Number one, we do not believe you have to spend all of the money. In fact, you saw the President's tweets over the weekend that said that we believe that we had to spend more or pay out more in non-defense discretionary during the negotiations in order to get the defense spending that we wanted as the administration, and we do not think you have to spend all of that money. That is reflected in the 2019 budget and the 2019 addendum.

However, if you do, you also now have the 2018 budget and the 2018 addendum that does spend all the way up to the caps. Keep in mind, when you look at the two numbers, the caps are not that different. It is a $10 billion difference from one year to the next.

So if you decide going into the omnibus appropriation that you are going to have I believe before the end of March and decide to spend up the caps, which we fully expect that you would, you have a guide from the administration as to how the administration would purport to spend that amount of money.

Between March and the end of the fiscal year in September, if you decide to, again, spend up to the caps on 2019, then you could use the 2018 number as a guide because the numbers are not that different. If, however, intervening circumstances prompt you for whatever reason to not want to spend all the way up to the caps, then you also have guidance already in your hand from the administration on how we would spend that money. That is the 2019 budget with the 2019 addendum. So that first message is that you do not have to spend it all, but if you do, here's how we would spend it.

The second message behind this budget is pretty straightforward, which is that we are not condemned to year after year after year of trillion-dollar deficits. There is a way to get off of that ride, and that is the larger, overarching message of this budget that there is probably more than one way, but we have offered at least one way to get off of that cycle of trillion-dollar deficits. So as you start to look into the out years in this budget, you see that we dramatically reduce the overall size of the deficit and the debt as a percentage of GDP.

No, it does not balance. I believe that I said to you when I was here last year that we had worked very hard last year to try and show a budget that balanced in 10 years, and I also pointed out, as many of you have individually, especially in the Republican side of the room, that if we did not start to make changes earlier rather than later, it would become more and more difficult to balance the budget every single year. And I think I actually told a couple of folks last year that I was unlikely to be able to balance the budget this year, and that turned out to be the case.

In hindsight, I probably could have brought you a budget today that balanced, but it would have been made up of funny numbers. I did not want to do that. I wanted to give you a budget that you could look at and know the numbers were solid, know that they were truthful, know that there was a lot of transparency in this budget, and know that this budget, especially for 2018 and 2019, reflects the actual physical condition of the country. So even though it does not balance, we are extraordinarily proud of it.

And to that end, by the way, I read in the newspapers this morning that someone reported that I would not support this budget if I was in Congress. That is absolutely false. I absolutely and without reservation support this budget. I think someone was making a reference to the caps deal. This is a really good budget. You all may be able to do a little bit better than this.

The Chairman and I have already talked about things that might be done in addition to it or instead of it. But we are very proud of this budget that the administration and I wholeheartedly support it and endorse it and would vote for it if it would ever come to the floor, which I understand was my job when I was here.

Anyway, with that, Mr. Chairman, I am happy to go over the details over the course of the next couple of hours, but we do welcome the opportunity to come in here and tell you and show you, give you examples of the specific message that the administration has for the Congress when it comes to the fiscal year 2018 and the fiscal year 2019 budget, and I thank you very much.

[The statement of Mick Mulvaney follows:]

TESTIMONY OF
MICK MULVANEY
DIRECTOR
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE HOUSE COMMITTEE ON THE BUDGET

February 14, 2018

Chairman Womack, Ranking Member Yarmuth, Members of the Committee:

Thank you for this opportunity to testify on President Trump's Fiscal Year (FY) 2019 Budget.

Last year, I sat with you in this same room and laid out the goals of the President's first budget, which focused on something Washington has not done in quite some time: put the American Taxpayer first.

Our first budget put a premium on policies that would help us reach sustained, 3% economic growth, a goal designed to help millions of Americans climb out of the economic malaise that defined the previous Administration. Those policies included pro-growth tax reform and deregulation.

One year later, I am happy to report that we are making progress toward our goal of higher wages, more take-home pay, and growing our nation's economy.

Unemployment is the lowest it has been in 17 years, consumer confidence is back to highs unseen since the year 2000, and 2 million jobs were added in calendar year 2017. Economic optimism in America is high. In short, we have made significant progress in realizing the President's vision to restore prosperity in America through sustained economic growth. The vision, which we coined MAGAnomics, is working.

President Trump's FY 2019 Budget focuses on four main priorities:

1. The safety and security of the American people.
2. Continuing to build an even stronger and more robust American economy.
3. An enhanced quality of life for hardworking Americans; and
4. A commitment to a better future.

A simple reality undergirds this budget: our nation's fiscal path is unsustainable. Moreover, as government has grown more expensive, it has also grown more intrusive.

The Budget recognizes that we must restrain unnecessary spending and rightsize the Federal Government, or the better future we hope to leave to our children will instead be a massive debt burden. Every dollar allocated within this budget was done so efficiently, effectively, and with accountability.

The FY 2019 Budget includes $3 trillion in deficit reduction, including $1.7 trillion in reductions to mandatory spending and receipts. This represents a larger amount of deficit reduction than proposed by any previous President. It proposes nearly $46 billion in major reductions to discretionary programs for FY 2019, including $26 billion in program eliminations. It also includes a "two-penny plan" that reduces non-defense discretionary spending by two percent a year after 2019. The proposals in this budget, along with historic tax reform the President signed last year, will help grow the economy while substantially reducing the deficit over the budget window and beyond.

The Budget also accounts for the agreement that Congress reached last week to significantly raise the defense and non-defense discretionary spending caps in FY 2018 and FY 2019 in the *Bipartisan Budget Act of 2018*.

The Budget is consistent with the FY 2019 defense spending levels included in the *Bipartisan Budget Act*, which are critical to help rebuild our military after years of under-investment. However, given our dire fiscal situation, the Administration is not proposing to match the new non-defense cap in FY 2019. The Administration does not believe these non-defense spending levels comport with its vision for the proper role and size of the Federal Government. However, in light of Congress's new caps, we believe it is prudent to lay out the Administration's roadmap for how to account for these higher spending levels in a fiscally responsible manner. As such, the Budget proposes additional funding for Administration priorities, while also fixing long-time budget gimmicks that Congress and the prior Administration have used to circumvent spending caps and add billions to our deficits.

Safety and security of the American people

- Defense: The first priority of the FY 2019 Budget is to keep our nation safe from those who wish to do us harm. To ensure that our Commander in Chief has the tools necessary to destroy ISIS, deter would-be competitors like China and Russia, and rein in rogue states like North Korea, this budget fully funds the National Defense Strategy, providing a total of $716 billion for national defense. Additionally, we propose shifting funding from Overseas Contingency Operations (OCO) to the base budget, to begin the transition away from using OCO as a gimmick to avoid the sequestration caps.

Other investments in the Budget include:

- **Military Pay Raise.** The Budget requests a 2.6% pay raise for our troops, the largest since 2010.
- **Force Structure**. Over five years, the Budget increases the total end strength of our military by 56,600 service members, procures an additional 54 ships for our Navy, and adds three Air Force fighter squadrons.
- **Modernization.** The Budget requests $99 billion over five years to modernize our nuclear, space, cyber, missile defense, and other capabilities.
- **Readiness, Forward Posture, and Resiliency.** The Budget addresses the readiness crisis our military faces with investments in training, weapons systems, and facilities, while supporting our global posture to deter our adversaries.

- Securing the Border: As the President has said, a nation without borders is not a nation at all. The Budget reflects the President's commitment to fully securing the border by providing $18 billion to fund construction of the border wall. With the *Bipartisan Budget Act* now the law, the Administration is seeking to fully fund the border wall in FY 2018 and FY 2019. The Budget also provides robust funding for interior enforcement, to secure our ports of entry, and to protect against emerging threats - all components of the Administration's comprehensive approach to border security and immigration.

  In addition, specific investments in the Budget include:

  - **Law Enforcement.** The Budget proposes $782 million to hire and support an additional 750 Border Patrol agents and 2,000 ICE officers and agents.
  - **Detention Beds.** The Budget provides $2.7 billion to fund 52,000 detention beds.
  - **Immigration Judges.** The Budget funds an additional 75 immigration judge teams and provides $25 million for technology modernization.

- Supporting Our Veterans: Our commitment to those who serve does not end once our troops come home. Keeping faith with our veterans, the Budget requests an 11.5% increase for the Department of Veterans Affairs medical care from 2017 enacted levels, including substantial increases over the FY 2018 request to address medical care needs, improve VA's infrastructure, and invest in an updated Electronic Health Records (EHR) system. The Budget funds a smooth transition from the existing CHOICE program to CARE, a new, consolidated community care program, fulfilling the President's promise to provide veterans with more choice in their healthcare. It also includes several new proposals for vocational rehabilitation and education, including counseling prior to separation for certain service members and preparatory courses for GI Bill beneficiaries.

Continuing to build an even stronger and more robust American economy

- Pro-Growth Tax Reform: The *Tax Cuts and Job Act* has resulted in millions of American workers receiving a wage increase or bonus. The historic tax reform law simplifies the tax code by lowering individual tax rates and broadening the tax base. It also increases the standard deduction and child tax credit. Finally, it repeals the individual mandate. The Budget recognizes that tax reform will help grow our economy and improve our Nation's fiscal picture over the long term.

- Deregulation: In Fiscal Year 2018, the Administration currently projects the publication of almost 450 deregulatory actions and the addition of only 131 new regulatory actions. Federal agencies have committed to achieving $9.8 billion in net savings in present value terms. In addition, agencies project they will continue to drive the deregulatory effort by eliminating three existing regulations for each new regulation created.

- Infrastructure Initiative: On Monday, the Administration released details of our proposal to generate $1.5 trillion for rebuilding our nation's infrastructure. The Budget includes $200 billion in federal support for this effort, focused primarily on incentive grants, formula funds for rural infrastructure and major transformative projects. Combined with major reforms to the permitting process, the infrastructure initiative will generate jobs and growth and pay dividends for decades to come.

- Apprenticeships: The Budget requests $200 million for apprenticeship programs, doubling last year's budget request. Studies suggest that the apprenticeship model of combining classroom training with real-world job experience – all while earning a paycheck – dramatically improves participants' lifetime earnings. Investments in our budget will support States' efforts to expand apprenticeship, establish a new industry-recognized apprenticeship system, and take steps to expand the model in high-growth sectors where apprenticeships are underutilized.

An enhanced quality of life for hardworking Americans

- Welfare Reform: Welfare reform is critical both for our fiscal health and for the well-being of the American people. The Budget takes an innovative approach to the Supplemental Nutrition Assistance Program (SNAP), combining the current retail-based benefits with delivery of 100% American grown food. The Budget also proposes incentives for States to invest in activities that will help SNAP participants find and keep jobs and become self-sufficient.

  The Budget also provides States the opportunity to propose Welfare to Work Projects, which streamline funding from multiple public assistance programs and redesign service delivery to tailor it to constituent needs. These projects will be rigorously evaluated to ensure that they reduce welfare dependency and promote child and family wellbeing.

- Protecting Medicare: Protecting our seniors remains a cornerstone of this Administration's priorities. In keeping with the President's promise, this budget proposes reasonable reforms to the operations of the Medicare program without a reduction in the coverage or benefits for beneficiaries. The proposals in this budget will save $237 billion over the budget window and extend the program's solvency by roughly eight years. By promoting efficiency, reducing the cost of prescription drugs, and eliminating waste, fraud, and abuse, the Budget saves money for all taxpayers.

- Drug Pricing: The Administration is moving aggressively to address the problem of high drug prices, provide greater access to lifesaving medical products, and ensure the United States remains the leader in biomedical innovation. The Budget puts forth new strategies to rationalize the current incentive structure and foster greater competition. Overall, the proposals in the Budget reduce beneficiaries' out-of-pocket costs and provide better protection against catastrophic expenses.

- Combatting the Opioid Epidemic: Deaths from drug overdoses have almost doubled in the last 10 years, and drug overdose is the leading cause of unintentional injury deaths for Americans under the age of 50. Opioids are a major driver of this crisis, and the Budget provides the resources needed to continue the Administration's efforts on this front.

  The Administration is seeking nearly $17 billion government-wide in opioid-related spending in 2019 to stop this deadly scourge. Notably, the Administration proposes $3 billion in new funding in 2018 and $10 billion in new 2019 funding in the Department of Health and Human Services (HHS), for a total of $13 billion for HHS over two years to combat the opioid epidemic by expanding access to prevention, treatment, recovery support services, research to develop new treatments for addiction, and support for mental health. The Budget also includes investments to help stop the illegal supply of drugs. In addition to investments outlined here, under the levels in the *Bipartisan Budget Act*, the Administration is seeking $18 billion for the border wall. Building the wall is critical to impeding and denying the flow of illicit drugs into our country. The Administration is committed to providing law enforcement personnel with the tools and resources they need to respond to this threat.

The President has also committed resources to have the Drug Enforcement Agency and Secretary of HHS work together in revoking a provider's certificate that permits them to prescribe controlled substances when that provider is barred from billing Medicare based on a pattern of abusive prescribing.

- Obamacare Repeal: Obamacare has wreaked havoc on the individual insurance market. Average premiums are increasing dramatically as the number of insurers on the exchanges dwindles. The Budget supports a two part-approach to repealing Obamacare, starting with the enactment of legislation modeled after the Graham-Cassidy-Heller-Johnson legislation, and continuing with the enactment of additional reforms to help set government health care spending on a sustainable fiscal path. Under this two-part approach, the Federal deficit will decrease as States take charge of their own health care markets and are given the flexibility to implement their programs in a cost-efficient and consumer-friendly manner.

- Investing in School Choice: The Budget provides a $1.6 billion investment in school choice, a $1.16 billion increase from the FY 2018 CR level, eventually ramping up to $20 billion annually within the next ten years. The proposal includes funding for charter schools and magnet schools, and a new proposed grant program that supports both public and private school choice. Regarding the Budget's investments in private school choice, the increase of private school scholarship programs at the State level clearly shows that parents across the country want access to private school options for their children.

A commitment to a better future.

- Modernizing Government: As part of the Administration's technology modernization agenda, the FY 2019 Budget includes $80 billion in IT and cyber funding, which is a 5.2% increase over FY 2018. In addition, the Budget requests $210 million for the Technology Modernization Fund (TMF) as a critical component of advancing the Administration's technology modernization agenda and an important first step in changing the way the Federal government manages its IT portfolio. The TMF, established by the recently enacted *Modernizing Government Technology (MGT) Act*, is designed to facilitate the retirement of antiquated IT systems across Government and transition agencies to more effective, secure, and modern IT platforms.

The Budget also outlines a number of proposals designed to drive civil service reforms that empower senior leaders and front line managers to align staff skills with evolving mission needs. Just like any organization, the Federal Government should have the means to be able to hire the best and fire the worst. To this end, we are recommending that $1 billion in FY 2018 funding be aligned to a new workforce fund that targets recruitment and retention incentives for top performers with mission-critical skills.

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Chairman Womack, Ranking Member Yarmuth, Members of the Committee:

Millions of Americans have benefited from the first year of President Trump's administration. The FY 2019 Budget before you today proposes to build on this success and expand our vision of safety, security, and prosperity to even more Americans.

Thank you for the opportunity to testify, and I look forward to taking your questions.

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Chairman WOMACK. Thank you, Mr. Director, for your opening remarks, and, again, we appreciate you being here today. And you are going to get an opportunity, I am sure, because I have absolute confidence in the people to my right and my left that they are going to ask some really direct questions and give you an opportunity to expound. And I am going to lead off here this morning.

I am glad to hear you talk about deficits and debt. Because, at the end of the day, what we do with our budgets and how we appropriate the dollars that fund our government has to be checked by what we are doing to future generations insofar as running up deficits and piling up more debt that will surely fall on future generations.

And I am reminded of the many times the people on my side of the aisle have talked about shrinking the size of government, the cost of government, and giving some relief to the fact that there is just a certain amount of money out there and sometimes we kind of overpromise our government to our people.

But generally speaking, we talk about this in terms of numbers, and sometimes these numbers are so large. In fact, they are often so large that they just fly over the head of most people because of the number of zeroes and the number of commas in these numbers. But what is our moral obligation as the legislative branch of government who has the Article I authority to fund this government? What is our moral obligation to make sure that we get our arms around these deficits and debt?

Mr. MULVANEY. I am disappointed Mr. McClintock stepped out for just a second, because I am actually going to use one of his lines that I have always liked, which is, "There is no such thing as a deficit. It is simply a future tax increase delayed." If you assume that we are eventually going to pay all of our debts, which I think everybody in the room assumes that we will, you are going to have to pay for it at some time. And since the only way the government raises money is through taxes, then what we are really simply doing is spending money now that we are going to raise in the future.

So I think the moral obligation there is to do as little of that as you possibly can. Does it disappoint me that we do not balance in 10 years? It does. Do I think it is a failure because of that? I do not. This budget proposes $3 trillion in savings against the baseline, which is essentially what we would spend about for the budget. That is the second largest production spending of any administration budget in history exceeded only by last year's budget.

There is $1.7 trillion here. Did I say billion? I meant trillion. I am sorry. They run together after a while. We saved $1.7 trillion against the baseline in mandatory spending. This administration has been accused of not being willing to tackle the difficult question of mandatory spending. $1.7 trillion of mandatory proposals here in this budget, the largest ever by any administration, so we do make some difficult decisions.

Is it easier to spend money than it is to cut? Absolutely. In fact, I did it. We went through the plus-ups when we took the 2018 budget and spent up to the caps as part of the addendum and took the 2019 budget and almost spent up to the caps.

I have got to tell you, those meetings are a lot more fun when you get to spend money than they are when you have to cut, but this is not supposed to be fun. This is supposed to be responsible and honest, and sometimes that does take making difficult decisions. Sometimes doing the moral thing does take difficult decisions, and we think that we have done that with this budget.

We look forward to working with you on yours, because I know you all are going to be doing the same thing.

Chairman WOMACK. There is a difference between cutting and slowing the growth, although those terms sometimes in the way we approach the numbers are used interchangeably. Does it not make sense that we have got a slow growth first, and if so, how in the world do we do it particularly on the side of spending that is on autopilot?

Mr. MULVANEY. It does. I am always fascinated in Washington, D.C. that the word "reduce spending" does not seem to exist. It is "gutting" and "slashing" and "cutting," but we do seem to use a different language here.

Plus we always compare spending against the baseline, that if you spend up to the baseline, that is not an increase. It is not a reduction, although back home if we spent more money one year than we did the previous year, we would call that increase. Here, sometimes we call it a freeze or we actually call it gutting or cutting. You are absolutely right.

In fact, if you look at our proposals, especially in the mandatory area, Mr. Chairman, we continue to spend more money from one year to the next. We simply slow that spending. Medicaid is a good example in terms of the proposals that we have. We can talk more today about Graham-Cassidy and about our proposals for how fast healthcare programs should grow.

And I would contend to you that you are absolutely correct: growing something more slowly than it might otherwise grow does not constitute a cut or a slash or a gutting. It might instead be the responsible thing to do.

Chairman WOMACK. The CBO, in their last economic forecast—this is June of 2017—expected economic growth to average under 2 percent, at 1.9 percent over the next 10 years. Your economic forecast counts on 3 percent sustained growth in that budget window.

Specifically, because I believe in my heart that the interest rate environment is going to likely rear its ugly head if, in fact, we accelerate growth in this economy, how do you anticipate higher economic growth impacting interest rates and the impact it will have on the net interests on our debt?

Mr. MULVANEY. As we did last year, we think we have made some very reasonable and defensible estimates and assumptions regarding economic growth. We have slightly ratcheted up our estimates for economic growth in the next couple of years from last year's budget. Keep in mind, I do remember being in here last year and even taking a little bit of heat from my former delegation mates from South Carolina for having overly rosy economic assumptions that in the real world we actually beat.

As a result of the economic performance of the economy of the Nation for the last 12 months, we have made some slight increases in our assumptions for the next couple of years, some slight reductions in our assumptions in the out years as we think we bring them more in line with reality.

We have made some changes to our interest rates, but we still think these are entirely defensible. They are slightly lower than they were last year, simply because we think the environment has certainly been that interest rates are lower than everybody thought that they would be.

In fact, if you read some of the economic literature, what you will discover is that there is a discussion worldwide right now as to where the inflation is. We saw a little bit of an uptick this morning, but still I think economists around the world would tell you that they are surprised at the low rate of inflation and the corresponding low rates on government debt, keeping in mind that our assumptions are still well within where we are seeing debt today. So, we think the assumptions continue to be defensible.

And importantly, Mr. Chairman, they generate something absolutely critical. They generate more money for the Federal Government. We took a lot of heat as an administration and you did as a legislature for passing the tax bill that supposedly would run up the deficit.

And the fact of the matter is that our numbers indicate that over the course of the 10 years that we have—it is technically a 9-year window because the CBO has not updated its numbers yet—as a result of the tax bill, we will generate more money for the Federal Treasury than we would have but for the tax bill.

In the final year that we have some comparisons, which is 2027, that policy combined with the other administration policies generate almost $350 billion more in government receipts in 2027 and that number continues to increase outside the budget window.

So we absolutely believe that what we have done to try and fix the economy to get away from those slow rates of growth, the Obama economy as we like to call it, of 1.6, 1.9 percent growth forever, and move to a more stable and more traditional growth rate of 3 percent not only is good for everybody in the country, it is good for the government.

Chairman WOMACK. Growing the government creates savings because it provides more revenues for us to be able to play down on this deficit structure, but there is always a net effect of it because you grow and then you have the potential for the interest rate hike, and then so there is a net effect in there. Do you have numbers that show maybe on average what a certain amount of growth in the GDP would do as opposed to a certain amount of growth in the interest rate environment?

Mr. MULVANEY. We do, and you and I have had a chance to talk about this, and I think I talked about it with both parties in our private meetings before this. Our estimates are that an additional 1 percent increase in GDP over the course of the 10-year window reduces the deficit by roughly $3.25 trillion. About 2.5 of that looks to be additional revenue to the government and the balance is on reduced expenditures by the government. Keep in mind if you have a healthy economy for a long period of time, we expect fewer people to need means-tested welfare programs.

So not only do we generate more money in for the government through a healthy economy, we have to spend less to help take care of people because the economy is allowing them to take care of themselves, so a 1 percent increase across the window in GDP and the growth of the economy about $3.25 trillion. We weigh that against a 100 basis points or a 1 percent increase in interest, which across that same window generates about an addition $1.6 trillion in interest costs.

So clearly the challenge is to grow the economy without adding dramatically to inflation or to the costs of borrowing money. We believe that we are in a position to do that. We have already started to see that. Again, there are some questions as to why inflation is not higher than it already is, but we do believe that some of the policies that we have undertaken will allow us to keep inflation under control and also the slack in the labor market will allow us to do the same thing.

So, yes, all things considered, how do you pay down this debt in the long term? You have to grow your way out of it. You combine that growth with fiscal discipline, spending restraint. The good news here, ladies and gentlemen, is that we have a model on how to balance the budget because we did it; both parties take credit for it in the 1990s.

We grew the economy faster than we thought we otherwise would and we kept spending under control. You have to grow your revenues faster than your expenses. The money you take in has to get bigger, faster than the money that is going out. That is how you end up paying down the deficit and that is how you end up paying down the debt.

Then we think that the policies the administration has already put forward have started to do that and the policies that we put forward again in the budget will continue that trend.

Chairman WOMACK. Thank you, Mr. Director. I am out of time. I yield now to the Ranking Member, Mr. Yarmuth.

Mr. YARMUTH. Mr. Chairman, I am going to defer to my members and question last.

Chairman WOMACK. With that, Ms. Lee of California.

Ms. LEE. Thank you, very much. Thank you, Mr. Chairman, to our Ranking Member, and thank you, Mr. Director, for being here. Good to see you. First, let me just say, this budget is really shameful. It dismantles our basic living of standards that Americans have turned to for decades and pushes millions of people into poverty. It will destroy people's lives.

Now, let me list a few of these cuts. You have cut $213 billion in SNAP, $72 billion in disability programs, $3 billion in rental assistance. You cut in half adult employment and training programs. You eliminate, mind you, the Workforce Innovation Fund. You cut education by 10 percent. You eliminate the Minority AIDS Program, and at the Office of Minority Health, you eliminate this program specifically for people of color to being to help close these health disparities. You just totally eliminate these programs. You eliminate TIGER grants which have created thousands of jobs. You cut $1.4 million in Medicaid and you eliminate education programs important to low-income and students of color like GEAR UP.

It is hard to imagine how you could be proud of this budget, Mr. Director, especially since these cuts are to pay for the tax cuts for the wealthy billionaires, millionaires, and corporations. It is clear to me that you do not care about paying down the debt or the deficit, because this budget really shows exactly what this tax scam was all about.

So let me ask you about a family, for instance, in Kentucky. I think the minimum wage there is about $7.25 an hour, $7.50 an hour. A family of four, $24,000, $25,000. What in the world is this going to do that family who is struggling, working each and every day to take care of their family, then you come up with this kind of a budget?

And secondly, I want to ask you about this military parade that the President is proposing, you know, the parade that is very similar to those held in authoritarian countries like North Korea. How much is that parade going to cost and where is that money coming from?

Mr. MULVANEY. Thank you, Congresswoman. On to the second question first, we actually had military parades in this country before. I think we had one as recently as the 1990s or maybe more recently than that. I have seen various different cost estimates from between I think $10 million and $30 million depending on the size of the parade, the scope of it, the length of it, those types of things. We have not accounted for it in this year's budget simply because it has come up at the last minute, so we will continue to work with you folks if we decided to push forward with that initiative.

Ms. LEE. No, if who decides to push forward? Do you mean the President?

Mr. MULVANEY. Yes, ma'am. That is who I work for.

Ms. LEE. Oh, okay. I am sorry. I thought you said, "we."

Mr. MULVANEY. "We" being the administration. I am sorry.

Ms. LEE. Oh, okay.

Mr. MULVANEY. Yeah, no.

Ms. LEE. I am sorry.

Mr. MULVANEY. But of course, you have to appropriate funds for it and we have to find funds for it that you have already appropriated.

Ms. LEE. That would be an estimate, $10 to $11 million——

Mr. MULVANEY. Again, they are very preliminary, so it is between 10 and 30 depending upon the length. Obviously, an hour parade is different than a 5-hour parade in terms of the cost and the equipment and those types of things. So, you have asked a straight question. I have tried to give you a straight answer.

Ms. LEE. Okay.

Mr. MULVANEY. We have not done much research on it yet.

Ms. LEE.—I just wanted to verify that so we can——

Mr. MULVANEY. Regarding pushing people into poverty, your family in Kentucky, for example. Congresswoman, it probably does not come as a surprise, Republicans and Democrats do see things a little bit differently. We see the best welfare program as a job and we see a healthy economy as a way to push people out of poverty, allow them to lift themselves out of poverty. The reason you see reductions in SNAP and TANF and the other types of programs is, yes, we offer reforms, improvements to the programs that we think can work better, but we also assume that there are fewer people on there. I would think that would be a goal that we all share.

If you propose continual increases in SNAP and TANF, are you not just assuming that you are never solving the problem? In fact, I think we would all want to see a world where we do not even have to spend any money there, because no one should need the program in a perfect world. And we do not get there with this budget, but we do think we move in that direction. That is one of the reasons you see less spending on those types of programs.

Ms. LEE. But, sir, $7, $8 an hour people need a little bit of help from their government. First of all, in terms of job training, in terms of job retraining, you are cutting all of these programs in the Department of Labor. You are cutting out the TIGER grants. You are cutting funds that actually create jobs and economic growth. And so, this budget goes in the opposite direction for people who are living on the edge. And believe me, I understand what SNAP is about. I formerly was a SNAP recipient, because I had needed that bridge over troubled water raising my kids. It was not permanent. It was just so I could get through what I was going through, and that is the majority of people in this country.

And so to take that away now, and what you want to do is put them in a Depression-era box with food that is high in sodium and sugar content, it is a way that you are trying to make sure that we do not believe that they have the dignity that they deserve the way you are reforming and trying to put SNAP into a box now. And I think it is a shame and disgrace that you are treating low-income and working families in this manner.

Chairman WOMACK. Thank you. Mrs. Black from Tennessee?

Mrs. BLACK. Thank you, Mr. Chairman, and thank you, Director Mulvaney, for being here with us today. This obviously is a very important subject for us to discuss and that is because if we continue to spend the way we are, we are not going to be able to afford any of the programs.

But I want to go to the idea of cut versus reform. As the previous Budget Chair, and now we have a distinguished member sitting in the Chair seat; I know that he will continue to look at those kinds of reforms that we talked about in here last year. And we had 11 of our authorizing committees take a look at each one of their areas of authorization to look at possible reforms. You know, when programs are out there for 30 years, they maybe need to be reformed. They need to be looked at.

And one of those programs that I do think needs to be reformed in Medicaid. Medicaid was originally put into place for those that were disabled and aged and children, and now we see that we have people who are able-bodied workers on Medicaid, which only takes away from those that the program was originally intended for and we have less and less opportunity to take care of people that truly, truly do need those services.

And so, what I wanted to ask you was in the President's budget, do we look back and say, "Is there a way to reform the Medicaid that is currently in place to actually have that program be there for those that are the most in need, and do you put a work requirement in there?" And I want to say it is not just to save money. We obviously will say money, but there is something about a dignity of life and the loss of that dignity of life when people are not working. And so do you have a proposal for a work requirement in the program?

Mr. MULVANEY. We do. In fact, we have work requirements across various different welfare programs. We have proposed that this is actually one of the best ways to make sure those programs are available for folks who truly need it. We could talk about rent support. We could talk about TANF. We could talk about SNAP if you like. We could talk about Medicaid. But we try and bring this able-bodied worker concept to a lot of the welfare programs so that folks who can work do.

We need folks to go back to work. You talk about the dignity of work. You are absolutely right. The country needs those folks to go back to work. I got asked last year, "What would you tell somebody who wants a job but cannot find one?" I said, "Thank you. You are the people who are going to save the Nation."

The folks who want to work are the people that we are relying on to grow the workforce, to grow the economy, to grow the GDP. We do need folks to go back to work. I think we have deemphasized the dignity of work for generations now and I think the budget starts to move things in a different direction.

More writ, more large, Congresswoman, on Medicaid, what we assume is the Graham-Cassidy bill. We could talk about that if you would like. We also changed some of the growth rates there if you would like to talk about that. And by the way, as part of that, we give the states a level of control over whether or not they want to do work requirements as well.

Mrs. BLACK. That was my second question, is that I believe that one size does not fit all and we are culturally different from one side of this country to the other. And so, I did have that as a question, is what do you have in there for state flexibility?

Mr. MULVANEY. We anticipate a dramatic improvement or expansion of state flexibility. I was in the state legislature in both the House and the Senate before I came here and I can assure you that, those of you who have served, probably one of the things you recognize, the difference between there and here is that it works back home. Somehow, we managed to muddle through all the partisan divide and you actually get state governments that work.

They also know what is best for their state. I was tremendously frustrated year in and year out in the South Carolina legislature when mandates would come down from Washington and we would look at them and go, "This is just not tailored to the folks who need this care in South Carolina." I do not know why we automatically assume that state legislatures do not want to take care of folks back home just as much as we do.

I also do not know why we think that I, being from South Carolina, understand the folks in Kentucky or the folks in California, Tennessee, better than the folks who live there. So, we do try and move a lot of that decision making to the states.

Mrs. BLACK. Mr. Director, I only have a brief period of time left and I will probably have to submit the rest of this for the record, but I am concerned about the medical equipment competitive bidding, and we are losing more and more of our providers and less and less services that are available to those in need. I know there is an interim final rule that is pending at OIRA, and I would like to know more about where we are on that rule to get this moving forward so that we can open that back up again.

Mr. MULVANEY. And I apologize, Mr. Chairman. I cannot see the time, so I do not know how long I have to respond to that.

Mrs. BLACK. Forty-one seconds.

Mr. MULVANEY. Thank you. Very quickly, we are aware of the interest that many folks from both sides of the aisle have about the DME rule. That is under consideration right now at OIRA, the Office of Information Regulatory Affairs. It is not appropriate for me to comment on the status, but we are working with HHS to take into consideration all of the issues that have been raised by members of both parties and we look forward to getting that rule out expeditiously.

Mrs. BLACK. Thank you. I yield back.

Chairman WOMACK. Young lady from New Mexico, Ms. Lujan Grisham.

Ms. LUJAN GRISHAM. Thank you, Mr. Chairman, and welcome to the Budget Committee again, Mr. Mulvaney. And while I certainly respect your work in putting together a budget, I think that with many of my Democratic colleagues in particular, I am going to disagree that the budget reflects something that you just said, which is we can do a budget and we can do spending that is both in a responsible and honorable way. And I am going to take, I hope, a different tact about pointing out what I think are some real, concerning issues.

So this poor Committee has heard me over and over and over again, because I am lucky. I got to spend 30 years—I still do it now—doing direct services, largely in health and long-term care, but most of my constituents and clients, disabled adults, grandparents, grandparents raising grandchildren, are folks who need an array of services. And not just was I responsible for doing the budget and figuring out what those expenditures look like and having to demonstrate to the legislature what the impact on the individuals I was serving, but the impact on the state budget and the sustainability of those investments would look like.

But, maybe a bit differently—and I do not know for sure—but maybe a bit differently is that I spent a lot of time actually directly in the homes, hospitals, nursing homes, even went undercover in a nursing home to expose terrible care. I really spent time navigating those services, and in fact, I spent a great deal of my current career still navigating those services and still get calls from people in rehab facilities and nursing homes that need my help getting out and figuring out housing and a variety of services.

And so, I want to give you a quick example. Most people have never read a Medicare bill. Most policymakers have no idea about what the deductibles and some of those benefits really are and are not. And so, for example, if you need dialysis, which is a great number of Medicare beneficiaries in my home state of New Mexico, a huge percentage in fact, and many of these Medicare beneficiaries live in rural and isolated areas which means they have to travel to limited dialysis clinics. That, when you pay your Part B deductible and then you are responsible for 20 percent of that Medicare cost for dialysis, you are spending about $18,000 a year, to be exact, $17,946.

The average Medicare beneficiary has just over $23,000, to be exact, $23,500. So, simple math, you cannot afford that lifesaving treatment, and that is before we deal with figuring out your transportation.

And when we talk about people's dignity, I have to help them find a ride. I have to figure out what kind of food and services. And often these are men and women who served our military, who have worked their whole lives, and as you know, in both Medicare and Medicaid, the vast majority of individuals and the highest expenditures are seniors in long-term care with their prescription drugs and long-term care services.

And while it does not cost as much money, the vast number of individuals covered by Medicaid are children. So, this whole notion that able-bodied adults somehow are going to save the Medicaid system if we do work requirement reforms, the math—and I know you are good at this math—it does not work out, right? So these are not reforms when it is a $1.4 trillion cut, a $500 billion cut, to Medicare and Medicaid, those two combined, $72 billion to disability programs.

And in my state, which everyone knows we are one of the poorest states in the country, so I wanted to go about this with a minute left a little differently. Twenty percent of New Mexicans live in poverty. We have some of the hungriest families in the country. A third of us are on SNAP. We have some of the highest unemployment rates in the country. We have a governor who, I would say, has applied many of these same principles to running state government and to making reforms or cuts, and we are in real trouble. It is the worst trouble the state has ever been in, ever.

So, I was wondering. I think there is nothing better than a partnership, and I would like to invite you to come with me to New Mexico and we can go to the Navajo Nation, we can go to some of the most remote areas, and I want to introduce you to some of these very beneficiaries.

I would provide with their support a list of things that keep them afloat and the kinds of things that would go away under this budget, and maybe you and I could think about a different approach to creating meaningful, lifesaving, long-term reforms, but without creating vast more harm and, quite literally to that dialysis patient, a death sentence for these cuts in Medicare. Would you be willing to do that?

Mr. MULVANEY. In the 1 second I have left, I would be happy to talk to you about it. In fact, I think it would satisfy Mr. Pearce who has been asking me to do that since 2011, so maybe we can all do it together.

Ms. LUJAN GRISHAM. We could do it. I would be happy to do it with Representative Pearce because I know he knows many of these same constituents. Thank you. I will be in touch, Mr. Chairman.

Chairman WOMACK. I thank the gentlelady. To Florida, the gentleman from Florida, Mr. Diaz-Balart.

Mr. DIAZ-BALART. Mr. Chairman, thank you very much. Mr. Director, good to see you. Look, all of us who have known you and who have worked with you, whether we have disagreed with you or not in the past, and I have had both, know that you are a straight shooter. And I will just tell you, as a member of this Committee and also as the Chairman of an Appropriations Subcommittee, I look forward to continuing to work with you on these very important issues.

You know, when you were here last time, Mr. Director, as the Chairman said, the CBO projected that the growth of our economy would be 2 percent or less for the foreseeable future. You mentioned some of the things that were said by some of our distinguished colleagues about you in that hearing. I do not want to point fingers, but without mentioning who they are, let me read some of those things.

"No economist will approve your budget in terms of it working. There will not be 3 percent growth." They went on to say that, "This is a betrayal of the American people." Another distinguished friend and colleague said, "I think the media are doing a pretty good job of documenting many of the problems with the assumptions that were made in this budget, the 3 percent growth rate that no economist thinks is reasonable."

I could go on and on how it was said that in essence your 3 percent growth projections were fantasyland projections or a pipe dream. So now that we know that despite very costly natural disasters, we are basically now at that pipe dream fantasy that was so impossible. But, again, I thank you for your leadership and for actually coming up with real projections.

The leadership of the administration and your decisive actions have also reversed unnecessary regulations, but we are really choking small and mid-size businesses and I think that has been a major factor of that 3 percent growth. With that in mind, I want to go talk to you about an industry that has a rich history in south Florida, the cigar industry. It has been struggling in the face of excessive, burdensome regulations imposed by the FDA.

It is my understanding, Mr. Director, that the FDA is currently reviewing these regulations and plans to release an advanced notice of proposed rulemaking in the coming months. So, if I may, very quickly, how is your office going to work to ensure that the FDA's decision on the topic is supported by appropriate cost benefit and regulatory flexibility analysis?

And also, I would be grateful if you could have some folks from your team reach out to my team to make sure that that is in fact going to be happening. So kind of pose it as a question or as a statement, but if you would like to try to address that, please?

Mr. MULVANEY. Thank you, Congressman, and I have enjoyed talking to you about this before and I was just checking behind me to make sure that this was not in OIRA similar to the DME question that came up, but it appears that it is not. So, it looks like it is still over at the FDA.

We have absolute confidence that the FDA is going to apply the administration's sort of new standard when it comes to cost-benefit analyses, which is that we are actually going to do them, and we hope to actually have science and numbers behind them as opposed to the qualitative type of analyses that were done by the previous administration. I have learned a great deal about cost-benefit analyses in the last 13 months and have been extraordinarily disappointed to see what passed for a cost-benefit analyses under the previous administration.

So I think one of the things you can count on with Director Gottlieb at the FDA is a much more rational approach to the process, and when it comes to OIRA, really our job is to make sure that that is exactly what has happened.

We are sort of the policy police and regulatory police just to make sure that the folks are following the rules of the various agencies. We do not supplement our view for theirs. We simply make sure they have gone about it in the proper process. So we look forward to working with you and with all of the stakeholders on that issue going forward.

Mr. DIAZ-BALART. Mr. Director, I do too as well and I agree with you that I think that we have seen a different change in attitude in actually looking at signs versus just, you know, gut or whatever. So I look forward to working with you.

I would be remiss if I did not mention that, you know, I also sit on the Defense Subcommittee of Appropriations, and I just want to thank you for recognizing and putting in your budget in essence what is desperately needed, which is a rebuilding of our national defense.

And so, again, I also look forward to continuing working with you on that. This is not the only conversation. This is the first public conversation, but as I mentioned before, you have been accessible, you have been easy to deal with, you have been straightforward, and I look forward to further discussions and communications. I thank you and I yield back, Mr. Chairman.

Mr. MULVANEY. Thank you, sir.

Chairman WOMACK. Gentleman from Massachusetts, Mr. Moulton?

Mr. MOULTON. Thank you, Mr. Chairman, for the time. Director Mulvaney, thank you for coming back, and I especially appreciate your willingness to meet with Democratic members to hear our concerns and have an open discussion about how to prioritize government spending, so thank you for that.

Mr. Director, I would like to start with a statement from a freshman Congressman. “One of the most frustrating and disappointing lessons I have learned about Congress since I arrived here about a year ago is the simple truth that Washington does not know how to count. If we tried to run a private business using the same accounting methods that the government uses, we would likely end up in jail. This has brought us to a place where our spending and debt levels are unsustainable.” Do you agree with that statement, Mr. Director?

Mr. MULVANEY. I do. In fact, I seem to recall someone saying something like that. I really liked that person at one time.

One of the things that you will see in this budget, Congressman, that I hope has bipartisan support is that we have taken advantage of the additional spending available under the caps to close a lot of the loopholes that gave rise, in part, to that statement. CHIPs, for example—and I know I have just put half of the room to sleep, but we actually——

Mr. MOULTON. Mr. Director, you have put me to sleep too. So, I may ask? You have said before that deficits are dangerous. Do you still believe that deficits are dangerous or have you changed your mind?

Mr. MULVANEY. No, no, I do. In fact, I continue to agree with the statement of the head of the Joint Chiefs several years ago that said one of the greatest threats to the Nation was the debt.

Mr. MOULTON. So, I could not agree more. The administration's budget request would add $984 billion to the Federal deficit next year and add a total of $7 trillion to the deficit over the next 10 years. Do you find it hypocritical for the President who claimed that he would get rid of the national debt, and I quote, "over a period of 8 years," to send this budget to Congress?

Mr. MULVANEY. It is not hypocritical. Again, keep in mind, what the budget does, Congressman, it simply assumes and supports the caps deal that was approved by this body just 5 days ago.

Mr. MOULTON. But either the President meant what he said or he did not.

Mr. MULVANEY. I am sorry. I could not hear——

Mr. MOULTON. Either the President meant what he said, or he did not.

Mr. MULVANEY. The President takes deficits very clearly, but also recognize we live in a world where in order to get the funding that we needed for the Defense Department that we considered critical and to be a priority of ours, we had to agree to higher non-defense discretionary spending levels than we otherwise would have liked.

Mr. MOULTON. So is it safe to say that the President no longer intends to end the national debt after 8 years, which is what he said?

Mr. MULVANEY. I do not think it is possible at this point, given what has happened in the last 12 months especially, to pay off the debt in 8 years.

Mr. MOULTON. Do you think it is hypocritical for Republicans to have slammed the Obama administration for not eliminating the deficit when his Republican administration is now making it far, far worse? Do you think that is hypocritical, Mr. Director?

Mr. MULVANEY. In fact, what was hypocritical about it—and I have sat in this room. I do not remember if you and I were on the Committee before. One of the things that was most hypocritical about the previous administration was the numbers they used in not being able to balance.

Mr. MOULTON. But I am not asking about the hypocrisy of the previous administration——

Mr. MULVANEY. Well, that is what I want to talk about.

Mr. MOULTON.—talking about the hypocrisy of yours, Mr. Director. You are here to represent your administration. Do you think it is hypocritical for Republicans to have slammed the Obama administration over deficits and yet support your deficit spending?

Mr. MULVANEY. I think it is fair to say that we are disappointed in the size of the deficit, disappointed in the fact that it does not balance. But again, this recognizes that the reality in Washington, D.C. right now, which is that, with all respect, sir, your party insists on nearly a dollar for dollar ransom for military spending, and we cannot change that, especially with the 60-vote rule in the Senate.

Mr. MOULTON. But your ransom is my investment, and that is as a veteran of the military——

Mr. MULVANEY. Right.

Mr. MOULTON.—I think there is nothing that we can do to further our chances of defeating great world adversaries like Russia and China than to invest in things like education, to invest and science and technology. That is how we maintain an edge over our greatest adversaries.

But I have another question about the assumptions you have made. It seems that they are overly optimistic. Last year, you project annualized economic growth of 3.1 percent over the next three years. In December, the Federal Reserve projected an annualized growth of 2.2 percent over that period. A survey of professional economic forecasters has estimated an annualized growth rate of about 2.4 percent. You mentioned earlier the Obama economy. It seems that the Trump economy growth estimates are already in a nosedive and you are yet just a year in.

The Trump administration now, to your credit, Mr. Director, created 2.06 million jobs over the past year. That sounds pretty good, except that more jobs were created by President Obama in 2011, in 2012, in 2013, in 2014, in 2015, and in 2016.

And finally, you take credit for being willing to make tough decisions on Social Security and Medicare. Can you explain this quote, Mr. Director? "I was the first and only President potential GOP candidate to state that there will be no cuts to Social Security, Medicare, and Medicaid."

Mr. MULVANEY. May I?

Chairman WOMACK. The gentleman will take a few seconds to respond.

Mr. MULVANEY. Yeah. First of all, I think your jobs numbers are probably correct. I think your GEP numbers are just flat out wrong. But to the point about Medicare and Social Security, we do not touch anybody's benefits. We do not means test. We do not raise ages. We do not do anything to Social Security retirement. It is very similar to some of the proposals we had last year on Social Security. But I look forward to talking with you about it more. Thank you, Congressman.

Mr. MOULTON. I look forward to it as well. Thank you, Mr. Director, and thank you——

Chairman WOMACK. Thank you, gentleman. Members, please, if you have got a question for the director, do not wait until you have got 5 seconds left in your time before you ask that question, and we will give the director a little bit of time to respond. Gentleman from Oklahoma, Mr. Cole?

Mr. COLE. Thank you very much, Mr. Chairman, and Mr. Director, thank you for being here. It is always a pleasure to have you.

I want to begin like the Chairman did and complement you on some things because I think this is a better budget than last year, and I know you did not have a lot of time last year. This shows that and, of course, we complicated things for you at the end, and

I think you have adjusted that as well as you could. But I agree with what the Chairman had to say.

I appreciate the emphasis on defense. I appreciate the emphasis on border security. I appreciate the recognition that the opioid crisis is a crisis and you are trying to move and respond that way. That is something the President mentioned in the campaign and I think deserves bipartisan praise and support.

I like the idea there is more mandatory reforms in here than last time. I do not agree with them all, but I particularly like the Graham-Cassidy embrace. I think that is an important initiative. It is going to take a while, but I think you are right to seize on it.

And I also want to point to one particular area that I am interested in because I chair the Subcommittee where you had one proposal last year. I think you have listened to some of the things that we had to say in that Committee, and that is the National Institutes of Health, where you have not only level-funded, you actually have had a modest increase, and that is very important for us. It is very important, obviously, for the health and security of the American people.

But it is even more important in a sense long-term for bending the cost curve out there. I mean, we spend $259 billion a year in Medicaid looking after Alzheimer's patients. We have no cure. We have no way to really slow the progression, so that is an area that we have made a lot of emphasis on in the last 2 or 3 years.

Honestly, it is the right thing to do, it is the humanitarian thing to do, but also ultimately, if we do not get our hands on that disease, it will be over $1 trillion on the line it is on by 2050. So, you know, preserving those initiatives is really important. You are to be commended on that.

I want to engage you with a little bit in the time that I have left on an area that you have not addressed, and I am not being critical of the President or anybody else, but I just want to offer a path forward, and that is Social Security, to pick up a little bit on the discussion we just had. We all know, politically, that is a very sensitive and difficult area to address, so I am never too critical. The last President did not do anything to address Social Security. The last one that tried, Mr. Bush, got savaged over it.

But I think there is a way forward here and I would just ask you to study it, and I would not expect you to embrace it today, but Mr. Delaney and I have a bipartisan proposal that really goes back and mirrors what Ronald Reagan, Tip O'Neill, and Howard Baker did working together in 1983. And the idea is a commission, and people always argue they never work. Well, that one did. It was the Greenspan Commission.

You know, Social Security was much closer to going bankrupt then than it is today. As a matter of fact, the reason we have it today is because of the work that commission did and the surplus that was piled up in intervening years until finally the baby boomer generation began to retire and they are now drawing it down pretty rapidly.

I think that an opportunity exists to do that again, and if we could reform something like that—and again, Mr. Delaney and I have presented this for three consecutive Congresses—I think this President could actually be the person who saves Social Security, who puts it on firm footing, and it would be done in a very bipartisan way.

I would be the first to tell my friends on the other side of the aisle that are always concerned that this means slashing. Go back and look at what Ronald Reagan did with that commission with Tipp O'Neill. And by the way, Ronald Reagan in the next year won reelection with 49 states and Tipp O'Neill remained Speaker of the House, so you can do this in a bipartisan way as long as you are protecting the program because it is a popular program.

But the way they did it is frankly, was they very gradually raised the age. I was 34. They told me, "You are going to retire at 66, not 65. Your 1-year-old is going to retire at 67." They raise the cap, so they put more income in there as well. They made a modest increase in the deduction as well. In other words, there were a lot of little tweaks that could be done that would have a huge advantage.

So I would just ask you in the time you have left what thoughts you have going forward because that is over a $1 trillion program now, and we are either going to put it on firm footing or not.

Mr. MULVANEY. A couple of different things very briefly, we do make some small proposed changes to the S.S. program, not in retirement. We are talking about SSDI and SSI, and those have some marginal improvements on the state of the trust fund. But you are absolutely right. There is going to be a bigger issue to deal with and I think the best point you make is you talk about making small changes. The longer you wait, the larger those changes must be. I would look forward to talking with you further about that.

I also encourage you to look just as closely at Medicare and Medicaid, which are actually larger drivers of our deficit right now than Social Security are and are probably a little bit more complicated to fix, but we can deal with those and I look forward to working with Congress on behalf of the administration.

Mr. COLE. I absolutely agree. I spoke with the Speaker about that last year. I yield back.

Chairman WOMACK. The gentleman from New York, Mr. Higgins?

Mr. HIGGINS. Thank you, Mr. Chairman, and Director, thank you for being here. We appreciate very much your accessibility. You have got a folksy and modest approach to things and that is very, very refreshing here in Washington.

Infrastructure is obviously a centerpiece of this bill with 159,000 structurally deficient bridges in America. Every second of every day seven cars drive on a bridge in this country that is structurally deficient. It should be the centerpiece of this bill. However, the White House infrastructure plan, in my estimation, is another thinly veiled hit on local and state taxpayers. For every $6.50 of local and state road and bridge spending, the Federal Government will spend $1, so more state and local taxes to fund roads and bridges.

So people get more taxes at the state and local level, they already pay an 18.4 cents a gallon gas tax to fund the Federal Highway Fund, and then this plan relies on tolls. So, people at the local and state level will be taxed three times to finance this bill.

Secondly, total spending over the next decade in this plan will not exceed $200 billion. Oddly, that amount of Federal spending is nearly equal to the U.S. road and bridge spending in Iraq, in Afghanistan over the past decade, but Iraq and Afghanistan get a much better deal. The $180 billion that we have spent over the last decade, there was no local match. There were no toll roads. It was entirely deficit financed by the American people, by American taxpayers. So, no local match, no gas tax, and no toll roads. Every American, Democrat, Republican, and Independent, should find this truth to be sickening and highly insulting.

On Tuesday, September 25th, 2017, I was at a meeting with the President and members of the House Ways and Means Committee. I personally had asked the President about infrastructure and he categorically rejected the viability, the workability of public-private partnerships. In fact, he pointed to the Vice President, Vice President Pence, and told the entire group—I was not the only one there—that public-private schemes did not work, and he cited Indiana as a glaring example.

In August of 2017, the headline was, "Indiana Highway Gives Black Eye to Public-Private Partnerships Funding Infrastructure." The President was referring to a 21-mile stretch of highway in Indiana. They call it the "Highway to Hell." The project, private and state partnership, was signed by Vice President Pence back in 2014 when he was the governor. The project was 2 years behind schedule and only 60 percent built before the state took over the entire project and issued debt to finance the project in a more traditional way.

Nothing here adds up. You not only have a math problem—you have a math problem for certain—but there is also a values problem here, and this is not an American-first budget. And I think the infrastructure piece in this plan is but one example of that. In order to grow the American economy, you have to invest in it, and infrastructure, based on any objective analysis, has been identified as an essential piece to growth.

I applaud the administration's goals of achieving 3 to 4 percent growth. If we could achieve that over an 8-year period or a 4-year period, that would solve a lot of problems. But the budget that you have does not do that because it takes away from the very people that you depend on to spend money because the fundamentals of economics are that with higher incomes, there is more spending. Where there is more spending, there is more demand.

Where there is more demand, there is more growth. And I would submit to you, Mr. Director, that we have a growth problem, and getting and addressing that issue requires investing in growth. I have gone on, but you have got 20 seconds.

Mr. MULVANEY. I am not sure what to do with the 15 seconds I have left. I will tell you that the infrastructure plan has specific provisions—maybe we can talk about it with some of the other folks—to overcome the shortcomings that we saw in the Obama stimulus from a decade ago, where we threw a bunch of money at a problem and did not solve any of those problems. That is one of the reasons you see public-private partnerships. It is one of the reasons you see a focus on shortening the regulatory pipeline.

As I have told the President, you can throw $10 trillion at infrastructure today and it is unlikely that a single new road would be built within 10 years because of the pipeline and how long it takes to get stuff built. So we did try to learn from things that have been done in the past that did not work, but I look forward to talking about that more.

Chairman WOMACK. Mr. McClintock, California?

Mr. MCCLINTOCK. Well, I have often reflected on just how much more infrastructure we could have if the government would simply get out of the way, and we have seen that across the country, but I do want to compliment you. This budget proposal has already achieved a miracle. It has made the Democrats suddenly very concerned about the debt.

You know, for 8 years, the Obama administration literally doubled the entire debt of the United States and there was not a single protest from the other side. In fact, they were cheering it. Now they are concerned, although their response is to spend more money. I do not see how that addresses the debt, but that is a subject for a different day.

This sort of hypocrisy, though, is not an excuse for Republicans to suddenly become very complacent about the debt. At a budget briefing a year ago, I asked one of the experts how long we have before a sovereign debt crisis, and he said, you know, there is no way to make such a prediction.

There are many different variables that could trigger such a crisis. But he said if we start approaching trillion-dollar deficits, things will start to get very unstable very quickly, and we will have set the stage for a sovereign debt crisis. Now, as I look at these numbers, that is next year. What can you offer to allay these concerns?

Mr. MULVANEY. Keep in mind that a trillion-dollar deficit does mean something different in a 1.9 percent growth environment than it does in a 3.4 percent growth environment. I think you would agree with that. The real question is the relationship between the size of the debt to the size of the economy. It is not an excuse for not being able to balance. I am not trying to minimize the challenges that we face. But I think you would agree that a $1 trillion deficit in a $20 trillion economy is not the same as a $1 trillion deficit in a $25 trillion economy.

Mr. MCCLINTOCK. Agreed, but the only other time we have had a debt this large proportional to our economy was at the end of World War II when we had exhausted all of our resources and our credit fighting that war. We are at that level percentage-wise now. That concerns me greatly.

Now Truman's response was to cut spending dramatically. He took the Federal budget from $85 billion down to $30 billion in a single year. He fired 10 million Federal employees. It was called war demobilization. The Keynesians predicted a 25 percent unemployment and a second Great Depression. Instead, we had the postwar economic boom. He also cut taxes, but he cut taxes while he was cutting spending. Now we just cut taxes. That is absolutely vital for economic growth.

There are strong early indications that it is working beyond our expectations, which were very high, but having cut taxes, we also have a keen responsibility to restrain spending. I appreciate being quoted by the budget director. That is a first for me, and I am glad somebody was listening over these years.

Mr. MULVANEY. I heard it for 6 years, Tom. I was going to pay attention.

Mr. MCCLINTOCK. I keep repeating it until somebody hears it, and I thank you for recognizing that taxes and debt are not opposites. They are exactly the same thing. A debt is simply a future tax. Once we have decided to spend a dollar, we have already decided to tax it, either now or in the future.

But borrowing from the future also has very real implications in the present, because we borrow it from the same capital pool that would otherwise be available to loan to consumers, to make consumer purchases, to homebuyers to buy homes, to businesses seeking to expand. That money is now not there for economic growth because the government has consumed it.

My concern is we are working across purposes, but with the tax bill. By cutting taxes, we are in the process of producing I think a remarkable economic revival, but at the same time, we are undermining that by increasing borrowing against that capital pool that the private sector desperately needs to expand. How do we deal with this problem?

Mr. MULVANEY. One of the messages that I tried to convey in my opening statement was that one of the primary messages we hope this budget conveys to the legislature is that you do not have to go down that road to permanent trillion-dollar deficits. You do not have to worry about the perpetual crowding out, which is the economic phenomenon you are describing.

Even though this budget does not balance in year 10, the deficit is just slightly over 1 percent of GDP, and the total debt as a size of the overall economy actually starts to come down. Yes, it peaks around 80 percent, which is one of those numbers that economists fear when crowding out becomes a very real economic concern, but it then bends the cost curve down almost immediately after reaching that peak.

So, the answer to your question "how do we solve some of the problems" is we simply encourage you to take the ideas that you like in this budget and incorporate it into your own and try and help work with us to solve the problems that you just laid out.

Chairman WOMACK. Gentlelady from Washington, Ms. DelBene.

Ms. DELBENE. Thank you, Mr. Chair, and thank you, Director, for being with us today. You know, I am disappointed that when there has been talk about cuts or reforms, there has not been talk about return on investment, and as a budget person, I would think that would be an important concept. Let's talk about, you know, when we make investments. There are many investments that we make that give us a great return and actually save us much more money long into the future—education, infrastructure, research, and important programs.

So let's talk about SNAP. The administration's budget cuts $213 billion from Supplemental Nutrition Assistance Program, SNAP, over the next 10 years, which would place millions of vulnerable Americans at unnecessary risk of losing the most basic critical nutrition assistance. The SNAP benefit is $4.50 a day. Mr. Director, have you ever taken the SNAP challenge and had all your food, $4.50 a day?

Mr. MULVANEY. No, ma'am, I have not.

Ms. DELBENE. Well, I would encourage you to do that, because I have and it is very difficult to get by on a SNAP benefit. You are not able to get fresh fruits and vegetables and healthy foods. And if we expect people to be able to do their best job at work, to be able to be a great student, children to grow up healthy, then we need to make sure they have healthy, nutritious food.

We also cared a lot that we could do what we could to make sure that people did not have to stay on nutrition programs, to be in a place where they could take care of themselves and their families. In the last farm bill, I served on the Ag Committee and on the Conference Committee. When you put together a program based on work done in my state, the Basic Food Employment and Training Program, that took people on SNAP and gave them training so they were able to find employment in jobs where they are able to be self-sufficient.

I, then, help secured $200 million for USDA competitive grant pilot programs to expand job training opportunities for recipients of SNAP. Those programs have been going in USDA. And if we want to talk about something that works and helps people in a place where they do not need nutrition benefits because they are in a place where they are able to get a good job, those seem to be great investments that actually we get a good return on.

But I worry, because now the focus of this budget seems to be just on cutting SNAP and putting people in a vulnerable position. Approximately 44 percent of people who rely on SNAP have at least one person in the family who is working. This is not about people who are not working. In the many cases people are working and just do not make enough to get by. So, in the meantime, I guess we are saying we should punish them by taking away their access to food, and I actually think that would have a terrible impact on families across our country.

I am also trying to understand the proposal that families receiving $90 or more per month would receive a portion of their benefits in the form of a USDA foods package, something you talked about as a Blue Apron-type program that would have only nonperishable products, and when we hear from others about the need for healthy food and fresh fruits and vegetables. This would also move in the wrong direction.

So I have questions since you are relying on such a program, how would it actually work? You know, how much would it cost the government to set up the physical infrastructure that would be necessary to package and distribute boxes like these?

Mr. MULVANEY. Thank you for the questions, Congresswoman. One of the ways you can stretch that $4.50 a day further is by buying food wholesale instead of retail, which the government can do and individuals cannot, so we actually get more bang for the buck by doing this program. And I would point out to you that Democrats have actually supported this program in the past. One of the biggest defenders of the program has been Senator Feinstein from California when it comes to the food box program that we have had for many years for seniors.

It does work. It is one of the reasons we were very excited to see the USDA proposed to expand it because it is one of those programs because it seems like it actually works.

Ms. DELBENE. How do the people actually get these? What is the budget for actually getting them? Do you have a database so that you know what people's allergies are, what their dietary restrictions are? There are no fresh fruits and vegetables that would be part of this? What if a person's housing is unstable? How do you know how to get them the package? They do not have a concierge with someone who is going to sign for a package. How do you know it even actually gets to them? Have you thought through any of these things?

Mr. MULVANEY. Again, the challenges to actually get the box are very similar to the challenges to get them their EBT cards in the first place because if you are homeless, it is hard to find you.

Ms. DELBENE. Someone carries an EBT card with them and can use them wherever they are. This is an ill-conceived policy. It is going to deprive people of the most basic nutrition assistance and cost everyone more not only in quality of life, but more money in the long term. I yield back.

Chairman WOMACK. Gentleman from South Carolina, Mr. Sanford?

Mr. SANFORD. Thank you, Chairman. Let me first say, Mick, I admire you. I appreciate your competence, the way you handle yourself. I think you make the state of South Carolina proud.

Mr. MULVANEY. Usually when he talks like that there is a "but" at the end of the sentence.

Mr. SANFORD. All these things are true. There is a "but." I guess I struggle with this budget, and I will say this. I applaud the fact that you all have cuts. I mean, it is hard to come up with cuts in public policy, and yet you all have stepped to the plate on that front. But let me get to the "but." I think that this budget perpetuates this myth that we can balance the budget without impacting entitlements. I think that is a really dangerous myth to perpetuate. I think that we are sleepwalking our way to the largest financial crisis in the history of our country.

And it was interesting that the Wall Street Journal entitled the budget deal a "Guns and Butter" budget deal. I would argue that this budget is the, you know, "Guns and Optimism" budget deal in that, you know, Gordon Sullivan, who is former Chief of Staff of the United States Army, once observed that hope is not a method. But there is a lot of hope that is built into this, and I know that you are an optimistic guy by nature.

But I want to go back to this reality, which is if we have a budget that never balances and we predicate it on certain things that are stretches at minimum and they are somewhere between optimism and stretches. But, I mean, you look at this notion of in essence saying we are not going to have a meaningful economic downturn in the next 10 years as a component of the growth numbers that are built into this budget, I think that that is widely optimistic. And if it is wrong, we are off by trillions of dollars. We are not talking billions. We are talking trillions.

My colleague on the Democratic side just a moment ago mentioned the other projections in terms of economic forecast. The fed says 2.2. Private consensus is 2.4. CBO says 1.9. And yet, we are going to go at 3 percent.

You know, it is not that I am not optimistic. I am. But if you look at the building blocks of growth, as you well know, it is labor force growth and it is productivity growth that gets you to final growth. In an aging population, labor force growth is really, really difficult. That leaves you other variables.

I pulled some numbers here. This is actually from the Committee for Responsible Government. Their point is to hit the 3 percent growth number, it would take a doubling of the current immigrant population. I do not think that one is realistic. Okay.

If we are not going to do that, how about put every single working-age adult to working including full-time parents, the unemployed, the disabled, those in prison, and those in graduate school—that is probably not going to happen. Initiate two simultaneous dot-com size booms—difficult. Develop and utilize innovations more consequential than electricity, or—how about this one—phase out the weekend?

It is really mathematically difficult to get there and stay there. So, we have had something of a running back and forth on this. You certainly won the first quarter, but a couple of quarters at the front end do not make a 10-year buildout.

And so, I think you have got a question on growth. I think you have a question on interest rate. You know, you cannot have the growth that you all project without a consequent simultaneous rise in interest rates. It has never happened in the history of man. CBO's numbers are a close correlation there.

And so, I would just say, you know, how do we get to these numbers because what they perpetuate is this myth that we can balance a budget or move toward balance without affecting entitlements, and I think that is a really dangerous myth to hold onto whether on the Democratic or the Republican side of the aisle.

Mr. MULVANEY. Really quickly, in reverse order, yes. Interest rates, yes, we do have something that is a little bit lower than the CBO for the first couple of years, which we think reflects reality. We are actually slightly higher than CBO in a couple of the out years. Labor force productivity, I encourage you to look at the fourth quarter capital investment numbers.

While the GDP numbers were less than we expect, the capital investment numbers were almost four times what we expected. And it is that capital investment as part of the tax bill that you all voted for that we know we have to have in order to get that productivity growth. So this is all part of a plan. Capital investment leads to future productivity growth through additional machinery, additional education, additional innovation.

Keep in mind, all economic analyses are done like that. You can never know when the recession is coming. You go back and you look at the period from the Great Recession. Now, we averaged over 3 percent. Yes, we had a Great Depression in the middle of that. You go from just about every period of time up until the 2007s or 2008s and we had that 3 percent even though we had dramatic downturns in the middle. So these are simply——

Mr. SANFORD. But we did not have a baby boom generation retiring as we do now.

Mr. MULVANEY. I will look forward to doing this on the next flight home, because you know how I much I enjoy this, but thank you for your questions.

Mr. SANFORD. Thank you. That is right.

Chairman WOMACK. Gentlelady from Florida, Ms. Wasserman Schultz.

Ms. WASSERMAN SCHULTZ. Thank you, Mr. Chairman. Mr. Mulvaney, it is good to see you. Thank you for joining us this morning. On the screen, I would direct your attention to a tweet from the President that he wrote in 2015 as a candidate which reads, "I was the first and only potential GOP candidate to state there will be no cuts to Social Security, Medicare, and Medicaid. Huckabee copied me." As I am sure you know and as Mr. Moulton has already asked you, this budget would cut all three of those programs—breaking that promise along with many others that have already been broken, so the track record is clear—and that threatens the health and dignity of seniors, children, and people with disabilities.

The budget would cut Social Security by $72 billion over 10 years, Medicare by $266 billion, and Medicaid by $1.4 trillion. And I know you referenced in your answer to Mr. Moulton that you do not cut benefits for any of these programs. Well, I beg to differ because you do cut benefits for more than a million households in Social Security Disability Insurance and SSI, more than a third of whom have multiple individuals in those households with disabilities.

In cutting Medicare, you can argue that you are not cutting benefits directly to patients, but the provider benefit cuts make it far less likely that providers will continue to participate in the Medicare program, diminishing the quality of access to healthcare that seniors have and also the diversity.

You know, in many places in this country, you know, going to a specialist and then adding a sparsity of providers who are participating in Medicare is really, really a challenge. I represent, as you know, the state of Florida with the largest percentage of seniors in the country by population, and so these cuts disproportionately impact our seniors.

The Social Security disability cuts will make it excruciatingly more difficult for people to qualify for SSI, and I do not know when you were a legislator if you ever helped a constituent try to get through the SSI and that disability process, but it takes years, which is insane to begin with, and now you will make it even harder. We are talking about an extremely vulnerable population.

So I am trying to understand why President Trump broke his promise to the American people and, frankly, if you are going to raise the issue of our deficits and debt, that does not hold water given that you added $1.5 trillion to the deficit in the tax cut scam bill that President Trump signed into law at the end of last year.

Mr. MULVANEY. Thank you, Congresswoman, a couple of different things in response to that. Lowering drug prices, which is what we do in this budget, does not break that promise. Ending the abuse that you and I have both railed against that pharmaceutical companies commit in the way price drugs within Medicare does not break that promise, and so I thought it was something we could both support. Putting a cap for the first time on true out of pocket expenses for seniors in part D does not break that promise. I think it is something we could all be able to support. For the first time, introducing a zero copay for some needy seniors in part D does not break that promise.

Ms. WASSERMAN SCHULTZ. You are trying to distract——

Mr. MULVANEY. Oh, every single one of those things is in this budget.

Ms. WASSERMAN SCHULTZ. You are trying to distract from the fact that the President promised—I will direct your attention to the screen again—specifically that he would not cut Medicare, Social Security, and Medicaid in writing, black and white——

Mr. MULVANEY. So you think lowering drug prices for seniors is a bad idea?

Ms. WASSERMAN SCHULTZ. No. What I am saying is that——

Mr. MULVANEY. Good. Then I would look forward to your support for these programs.

Ms. WASSERMAN SCHULTZ. Mr. Mulvaney, what I do not support is when the President makes a commitment to the American people and breaks that promise. He specifically said here that he would not, as President, cut any of these programs. This budget does cut all of those programs and directly targets the most vulnerable recipients who participate in those programs, and there is no denying that. You can point to other window dressing things that you have put in this budget, which on top of that further explodes the deficit.

Let me just ask you also about an issue of great concern to Floridians. The budget would also cut NOAA, climate research, by 37 percent, and despite what you might think about climate change, there is no denying—and you are from a state that is in hurricane alley on occasion—we are still recovering from one of the destructive hurricane seasons in recent memory. We have got more and more coastal areas dealing with flooding. I have neighborhoods in my district, Mr. Mulvaney, that flood even when it does not rain now even on clear days.

So why does this budget turn away from national efforts to assist communities like mine that are bearing the brunt of severe weather and climate change——

Mr. MULVANEY. I am sorry, floods on clear days? Did I hear it correctly?

Ms. WASSERMAN SCHULTZ. Yes, even on clear days, there are times when the coastal parts of my district——

Mr. MULVANEY. Oh, okay.

Ms. WASSERMAN SCHULTZ.—the neighborhoods flood.

Mr. MULVANEY. All right. All right. We do reprioritize within NOAA, within the Department of Commerce, to move away from climate change and more towards weather. We think that would more efficiently serve the needs that you have described.

Ms. WASSERMAN SCHULTZ. You cut regional coastal resilience grants. How are communities like mine supposed to be able to make sure they can gird against flooding when you are cutting the very funding that will prevent flooding from occurring——

Chairman WOMACK. The gentleman will have to take that one for the record. Let's go to Alabama, Mr. Palmer.

Mr. PALMER. Thank you, Mr. Chairman. I have sat here and listened to this, and I wish I had about 30 minutes to talk about climate change, for instance. We had a record 142 months with no hurricanes. We talk about rising ocean levels, and I do not know how many people in this room realize that Alabama was once a seabed. Something happened to cause the seas to recede. But I do not want to get into science, because I think it would take too long to explain it all.

But I have some major concerns about the budget as you know. You and I have had conversations privately and I want to continue to work with the White House to figure a way forward. But I do want to point out some things that I think are important and helpful in this budget, and that is the work requirements and some of the things that are being suggested and implemented by this administration, Mr. Director.

For instance, Kansas implemented work requirements back in 2011, and I just want to point out that since that time, incomes for the people who left TANF and SNAP, the nutrition program as our colleagues referred to it, their income increased 247 percent. Costs came down for the state and for the Federal Government, but their incomes went up 247 percent.

Now, my dad was blind in one eye, had an eighth-grade education, and I grew up skidding logs from mules. I grew up dirt poor, and I understand the benefit of work. I have heard our colleagues attack the tax reform bill, the first time in 30 years that we have reformed taxes, and I would just like to point out when you give tax cuts to small businesses and to major corporations, it benefits people who grew up like I did because, frankly, I never had a poor person give me a job.

I also want to point out that they implemented the work requirements in Maine, and about 7,000 people were removed from the rolls. Now these are able-bodied adults with no kids, all right, not everybody, able-bodied adults with no children, and their income went up a combined $18 million per year. That is not crumbs, is it?

All right, now let me get back to some more fundamental issues here, and, you know, I wish that we could have a dialogue where both sides were really working for what is best for the country instead of throwing out political talking points. It is not a political campaign when you get to the budget. It is really an effort to get us on a sound physical path. I am not sure we are there yet, and you and I have had these conversations.

I could literally sit down on a napkin and show you $1.2 to $1.6 trillion in additional revenues or savings that we could get. But if we do not fix the appropriations process, if we do not get back to making the House and Senate work, making this government work, it does not matter, does it?

Mr. MULVANEY. No, sir, it does not. In fact, one of the reasons that we supported the caps deal was to encourage a return to regular order in the appropriations process. It is the proper way for money to flow, the proper way for the administration to participate in the process, the proper way for all of you all to be heard, and we would very much like to see a return to that paradigm.

Mr. PALMER. Well, in that regard, if we can get the appropriations process restored the way it should work—and by the way, I think everybody in this room knows we passed all 12 appropriations bills last year. We did them in two packages, and we only had five Democrats vote for either one of them. So we did our appropriations work.

But in regard to some of the issues that, I think, we can deal with in terms of trying to reduce our spending is—and you and I have talked about the improper payments. In 2010, when the Democrats had both Houses of Congress and the White House, they passed the Improper Payments and Recovery Act.

In 2012, they amended that act and passed Improper Payments and Recovery Improvement Act. What is going on right now is that even though we have tried to address this issue, we never did real enforcement, so the improper payments rate has continued to go up.

Last year, it was $144.3 billion, yet you are only showing a savings of about $150 billion over 10. I think we can do better, and I think it should be a bipartisan effort. Would you agree with that?

Mr. MULVANEY. I would. We try to be conservative. As I said, I probably could have run that number up 10 times what we had and come in and said, "I am going to balance the budget," but we have just not shown an ability yet to reduce the payments much larger than we have in the budget, so we think the numbers are a lot more solid.

We look forward to working with Congress on reducing the amount of improper payments, keeping in mind that improper payments cover a wide variety of things. Everybody thinks it is simply a check written to somebody that should not receive a check, and it is a lot more than that as you know.

Mr. PALMER. I know, and every dollar we send out improperly is a borrowed dollar that we are paying interest on. Thank you, Mr. Director. Mr. Chairman, I would like to enter into the record the report on Kansas, and I will print the report from Maine's Department of Health and Human Services.

Chairman WOMACK. Without objection.

[The information follows:]

February 16, 2016

The Best Way to Free Americans from the Welfare Poverty Trap

How Kansas Blazed the Trail for Welfare Reform and What it Accomplished for Individuals' Employment and Incomes

AUTHORED BY
Jonathan Ingram | *Vice President of Research*
Nic Horton | *Senior Research Fellow*

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EXECUTIVE SUMMARY

Too many Americans are trapped in failing welfare programs and the problem is getting worse. The number of people dependent on government has exploded in recent years, largely due to state and federal expansions.

This was driven by the misguided conventional wisdom that the best way to reduce poverty is to expand welfare to more people and hope that they would eventually work their way out of dependency. But new research turns that notion upside down.

In 2013, Kansas bucked the welfare-expansion trend and implemented common-sense work requirements and time limits for able-bodied adults without dependents on food stamps. Under the leadership of Governor Sam Brownback, state officials launched the most comprehensive welfare tracking system of its kind to monitor the impact on individuals' employment and earnings.

The results were remarkable.

With no welfare work requirement or time limit, just one in five able-bodied adults on food stamps worked. Nearly 93 percent of them were in poverty, most in severe poverty.

Since implementing work requirements and time limits, the number of able-bodied adults on food stamps has dropped by 75 percent.

These reforms immediately freed nearly 13,000 Kansans from welfare on December 31, 2013. Nearly three-fifths of those leaving food stamps found employment within 12 months and their incomes rose by an average of 127 percent per year. That higher income more than offset the food stamps they lost, increasing economic activity and bringing in new resources for other state priorities. Better still, the average income among working able-bodied adults is now above the poverty line.

Those still receiving food stamps, but now subject to a work requirement, are also better off. The typical enrollee has significantly increased their employment and incomes, although their incomes are not as high as those freed completely from welfare.

Long-term welfare caused severe damage. The data shows that the less time these able-bodied adults spend on welfare, the quicker they can get back into the workforce once they are freed from welfare and the more money they will make. These Kansans are discovering new lives of independence and self-sufficiency that, in some cases, they haven't known for more than two decades.

This new evidence provides policymakers with an opportunity to rethink how they approach welfare. Reformers must refocus their anti-poverty efforts on freeing people from welfare completely, instead of simply reforming the welfare experience itself. Policymakers across the country should take a page from Kansas, restore the working class, and give real hope to millions trapped in a life of dependency and poverty.

Note: Names and other personal information of the below individuals has been changed to protect their identities

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JASON

Previously unemployed

STUCK ON FOOD STAMPS: **4 years**

CURRENT INDUSTRY: **Publishing**

EARNINGS AFTER LEAVING FOOD STAMPS: **$45,000 per year**

AMY

Previously unemployed

STUCK ON FOOD STAMPS: **2+ years**

CURRENT INDUSTRY: **Social assistance services**

EARNINGS AFTER LEAVING FOOD STAMPS: **$27,000 per year**

MATT

Previously unemployed

STUCK ON FOOD STAMPS: **3+ years**

CURRENT INDUSTRY: **Drywall installation**

EARNINGS AFTER LEAVING FOOD STAMPS: **$34,000 per year**

SARAH

Previously unemployed

STUCK ON FOOD STAMPS: **3+ years**

CURRENT INDUSTRY: **Ambulatory health care services**

EARNINGS AFTER LEAVING FOOD STAMPS: **$37,000 per year**

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JOSH PREVIOUS EMPLOYMENT: **$552/year in landscaping**

STUCK ON FOOD STAMPS: **3 months**

CURRENT INDUSTRY: **Petroleum and natural gas extraction**

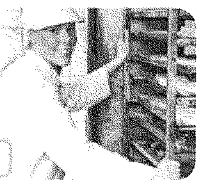
EARNINGS AFTER LEAVING FOOD STAMPS: **$41,000 per year**

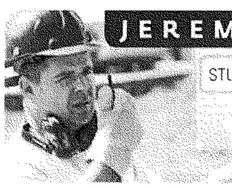
JENNIFER **Previously unemployed**

STUCK ON FOOD STAMPS: **1+ years**

CURRENT INDUSTRY: **Commercial bakery**

EARNINGS AFTER LEAVING FOOD STAMPS: **$53,000 per year**





JEREMY PREVIOUS EMPLOYMENT: **$5,000/year at temp agency**

STUCK ON FOOD STAMPS: **1+ years**

CURRENT INDUSTRY: **Oil and gas exploration**

EARNINGS AFTER LEAVING FOOD STAMPS: **$51,000 per year**

AMANDA PREVIOUS EMPLOYMENT: **$7,800 per year in retail**

STUCK ON FOOD STAMPS: **20+ years**

CURRENT INDUSTRY: **General retail merchandise**

EARNINGS AFTER LEAVING FOOD STAMPS: **$14,500 per year**

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THE CURRENT REALITY: AN EXPLOSION OF WELFARE DEPENDENCY ACROSS AMERICA

The number of Americans dependent on food stamps has nearly tripled in the last 15 years, growing from just 17 million enrollees in 2000 to nearly 46 million by 2015.[1] Skyrocketing enrollment has made the food stamps program one of the fastest-growing line-items in the federal budget.[2] This spending is growing ten times as fast as federal revenues, crowding out critical resources for other spending priorities.[3]

If that weren't bad enough, food stamps have also become the gateway to long-term government dependency. According to the latest data, the typical enrollee now stays on food stamps for an average of more than eight years.[4] This is also driving more Americans to other welfare programs. Recipients frequently report that they sign up for food stamps before seeking out other welfare benefits and more than 85 percent of households on food stamps are also receiving other types of welfare.[5,6]

As a result, the number of people dependent on government has exploded. By 2012, more than 35 percent of Americans lived in households receiving welfare from one or more government programs – and this was before the Affordable Care Act expanded Medicaid to a new class of able-bodied adults, further exploding the nation's rolls.[7]

State efforts to "integrate" eligibility systems – whereby an individual can apply for all welfare benefits at once – have made this welfare gateway even larger. This welfare explosion not only siphons resources away from other critical needs, it traps more Americans in poverty and robs them of the hope of a better life.

A KEY PART OF THE PROBLEM: TOO MANY STATES WAIVED WORK REQUIREMENTS

Able-bodied adults without dependents are contributing heavily to the growing food stamps crisis. These childless adults do not typically qualify for long-term food stamps unless they meet federal work requirements, but the vast majority of states began waiving these work requirements in recent years.[8]

As set forth in federal law, childless adults are required to work or participate in employment or training programs for at least 20 hours per week.[9] These requirements apply to non-pregnant adults who are mentally and physically fit for employment, who are between the ages of 18 and 49, and who have no dependent children or incapacitated family members.[10] Enrollees who refuse to meet these requirements are limited to just three months of benefits every three years.[11]

But with encouragement from the Obama administration, states have undermined these work rules, often by waiving the requirement altogether. In 2015, for example, 42 states partially or fully waived this requirement, allowing able-bodied adults to stay on the food stamps rolls indefinitely, regardless of whether they are working or training for work.[12] This policy shift has contributed significantly to the food stamp enrollment explosion.

When most states were enforcing work requirements, childless adult enrollment hovered around one million.[13] By 2014, most states were waiving these requirements and enrollment had increased fivefold, with more than 4.7 million able-bodied adults receiving food stamps.[14]

THE BEST ANTI-POVERTY REFORM: WORK

Waiving work requirements means higher costs for taxpayers and less funding available for other priorities. That impact is both real and troublesome. But the real tragedy is the damage welfare does to individuals' human spirit, stripping them of an incentive to work and leaving them languishing in poverty. Moving them from welfare to work helps them climb out of poverty and into a life of self-sufficiency and prosperity.

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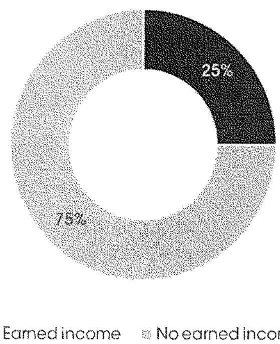
Currently, few able-bodied childless adults receiving food stamps actually work, despite having no disabilities limiting them from meaningful employment. In 2013, just one-quarter of childless adult households receiving food stamps had any earned income.[15] The remaining three-quarters had no earned income, meaning they were not working at all.[16] An analysis of food stamp recipients, conducted when work requirements first went into effect, found that fewer than five percent of all able-bodied childless adults on the program were meeting those requirements.[17]

Most childless adults on food stamps do not work

Childless adult households receiving food stamps, by earned income status



Source: U.S. Department of Agriculture

But research shows that simply working a full-time, minimum wage job would lift many able-bodied adults out of poverty entirely.[18] In fact, just two percent of all able-bodied childless adults who work full-time, year-round are in poverty, compared to nearly half of non-workers.[19] This disparity holds regardless of age, sex, education, race, citizenship or immigration status, region, or other demographic characteristics.[20]

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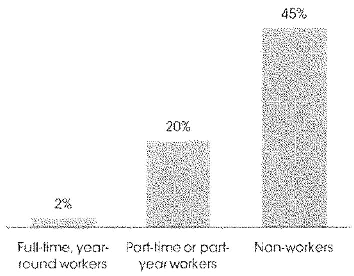
Working full-time raises most able-bodied adults out of poverty

Poverty rates for non-disabled childless adults aged 18-49, by work status



Source: Census Bureau

The value of hard work also extends far beyond higher incomes. In fact, studies have shown that work is important for nurturing the human spirit, better physical and mental health, lower mortality rates, improved self-esteem, greater personal satisfaction, and more financial security.[21] The dignity that comes employment and earned success creates happier, more fulfilled Americans.[22]

State leaders know that work changes lives. The state-led, work-first welfare reforms of the 1990s moved millions of Americans back into the labor force, spurring greater economic growth.[23] Welfare caseloads plummeted, employment rose, and poverty rates dropped, particularly among the most at-risk populations.[24]

Reform-minded policymakers are now pursuing a second round of welfare reform, with the ultimate goal of moving more Americans into the working class. The tide has already started to turn. Less than three years ago, just five states were enforcing work requirements for all able-bodied, childless adults on food stamps.[25] But by January 1, 2016, work requirements were being enforced statewide in 16 states.[26]

For these states, the value of work is not just a theory – it is a reality that is creating a new and brighter future.

THE KANSAS STORY: WELFARE REFORM IS IMPROVING KANSANS' LIVES

Under the leadership of Governor Sam Brownback, Kansas restored work requirements and time limits for food stamps in October 2013. The Brownback administration also implemented an innovative, first-of-its-kind process to track able-bodied adults as they leave food stamps and re-enter the workforce.

Prior to implementing these reforms, few able-bodied adults on food stamps were working and most were living in severe poverty. But this new data shows just how much leaving welfare can change lives.

Kansas' welfare reforms have moved more people out of welfare and into work, reduced poverty, and provided greater financial security for those previously trapped in dependency. Nearly three-fifths of those leaving food stamps found employment within 12 months and their incomes rose by an average of 127 percent per year. Even those still on food stamps significantly increased their employment and incomes, although their incomes are not as high as those freed completely from welfare.

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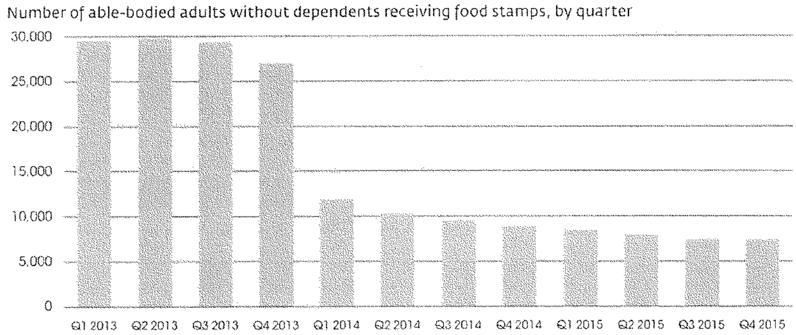
As part of the tracking program, the Kansas Department for Children and Families and the Kansas Department of Labor share data with each other, allowing the agencies to match each able-bodied adult leaving the food stamps program with quarterly employment information, including employment status, wages, and employer industries. The agencies combined this data with existing administrative data on enrollment dates, enrollment duration, average monthly benefits, and other demographic information. This aggregate and de-identified data has allowed the Brownback administration to measure its success in moving able-bodied adults from welfare to work.

WELFARE ROLLS SHRUNK QUICKLY AFTER WELFARE REFORM – DROPPING 75 PERCENT

Within three months of implementing work requirements, roughly half of allable-bodied adults on food stamps left the program.[27] The number of childless adults dependent on food stamps steadily declined thereafter and is now 75 percent lower than it was before work requirements.[28]

Work Requirements Moved Kansans Off Welfare

Number of able-bodied adults without dependents receiving food stamps, by quarter



Source: Kansas Department for Children and Families

Thousands of able-bodied Kansans have now moved into the labor force, spurring greater economic growth, significant income gains, higher levels of employment, less poverty, and lower costs for taxpayers.

ABLE-BODIED ADULTS INCREASED THEIR EMPLOYMENT AND INCOMES AFTER WELFARE REFORM

Kansas' welfare reform has led to greater employment rates, higher incomes, and more hours worked for those adults who still depend on food stamps. In fact, since restoring work requirements, the employment rate among able-bodied adults on food stamps has doubled. As a result, their incomes have more than doubled on average, they are spending less time on welfare, and the need for assistance has significantly declined.

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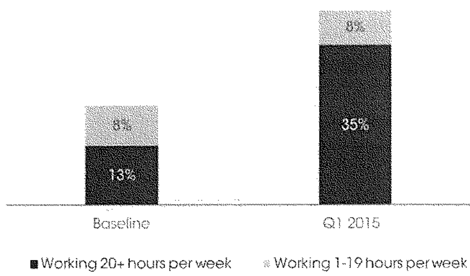
Prior to restoring work requirements, just 21 percent of childless adults on food stamps were working at all.[29-30] Two-fifths of those employed adults were working less than 20 hours per week.[31] But since work requirements went back into effect, that employment rate has risen to nearly 43 percent.[32]

After work requirements, food stamp enrollees are twice as likely to work

Employment status of able-bodied adults without dependents, by number of hours worked



Source: Kansas Department for Children and Families

ENROLLEES ARE WORKING MORE HOURS

Not only are enrollees more likely to work, they are also working more hours. The work participation rate – the share of enrollees working at least 20 hours per week – stood at a measly 13 percent just before work requirements went into effect.[33] But by the first quarter of 2014, the work participation rate climbed to 31 percent, reaching 35 percent by the second quarter.[34]

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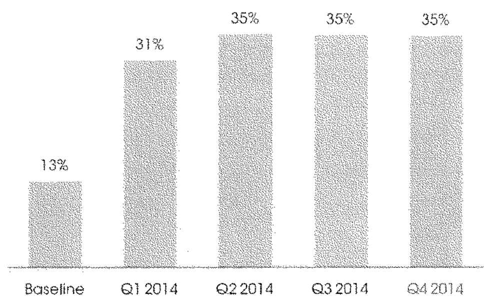
Kansas' work participation rate has nearly tripled

Share of able-bodied adults without dependents on food stamps working at least 20 hours per week, by quarter



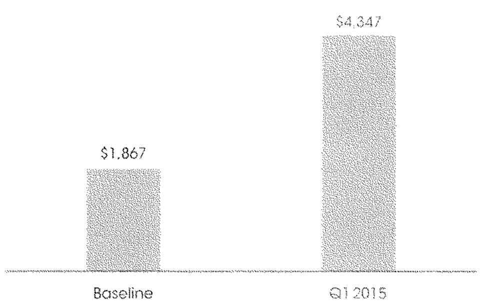
Source: Kansas Department for Children and Families

ENROLLEES ARE EARNING MORE

More work has also translated to higher incomes. Just before work requirements were restored in 2013, the average income among able-bodied adult enrollees was just $1,867 per year.[35] But since work requirements returned, average income among these childless adults has more than doubled, reaching $4,347 per year by the first quarter of 2015.[36]

Enrollees' average income more than doubled

Annualized average income of able-bodied adults without dependents on food stamps



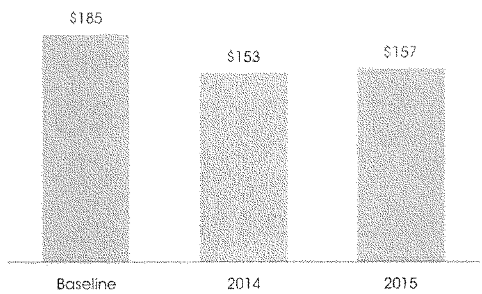
Source: Kansas Department for Children and Families

ENROLLEES NEED LESS ASSISTANCE

With more childless adult enrollees working, the need for assistance has dropped significantly. Just before the work requirement was implemented, able-bodied adults received an average of $185 per month in food stamps benefits.[37] The average monthly benefit has dropped by nearly 16 percent since then, with childless adults now receiving an average of $157 per month in benefits.[38]

Enrollees' average benefits dropped by 16 percent

Average monthly benefits for able-bodied adults without dependents on food stamps



Source: Kansas Department for Children and Families

TIME ON FOOD STAMPS CUT IN HALF

Work requirements have also shortened the amount of time these able-bodied adults are trapped in government dependency. When Kansas first began enforcing the work requirements, able-bodied adults cycling off the program had been there for an average of 14 months.[39] Many had been languishing on welfare for years, with some having spent more than two decades on the program. Despite an improving economy, many others had been there since the start of the Great Recession, with no end in sight. Since implementing the work requirement, the amount of time childless adults remain dependent on government has been cut in half. Today, able-bodied adults are spending an average of just 7 months on food stamps.[40] This is critically important in getting able-bodied adults back into the workforce as quickly as possible.

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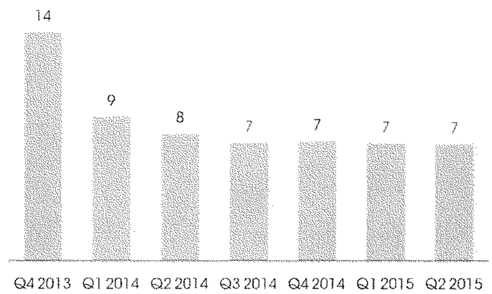
Amount of time enrollees' spent on food stamps was cut in half

Average enrollment duration of able-bodied adults without dependents, by the quarter they exited



Source: Kansas Department for Children and Families

KANSANS ARE BETTER OFF AFTER LEAVING WELFARE

For too long, the conventional wisdom in Washington, D.C., has been that the best way to move people out of poverty is to let them languish on welfare and maybe, gradually, work their way out of dependency. But Kansas' experience turns that notion upside down.

Kansas' truest sign of success is the fact that those leaving welfare are better off. Thanks to the power of work, they are earning more and are more financially secure than during their time on food stamps. And they are improving their lives faster than those who stayed behind.

These able-bodied adults are discovering new lives of independence and self-sufficiency that, in some cases, they haven't known for more than two decades. This makes clear that reformers should turn their focus to freeing people from welfare completely, instead of simply reforming the welfare experience.

MORE KANSANS ARE SELF-SUFFICIENT AND WORKING

Nearly 13,000 able-bodied adults exited Kansas' food stamps program on December 31, 2013. This was the first group of individuals disenrolled after hitting the three-month time limit for those who fail to comply with work rules. Within three months, nearly 40 percent of those who left the program had found employment.[41] Over the course of the next year, more and more able-bodied adults would find work. By the end of 2014, nearly 59 percent of these adults had found employment of some kind, with that number rising again in 2015.[42]

Those who left the program in 2014 and 2015 typically found employment even faster. Overall, roughly half of all able-bodied adults who have cycled off the program since work requirements went into effect have found jobs within three months.

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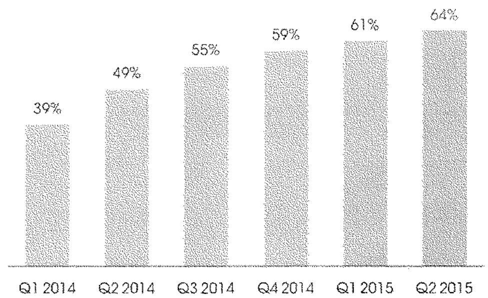
Nearly 60 percent found employment within a year of leaving food stamps

Share of able-bodied adults without dependents exiting December 2013 with any employment records, by quarter



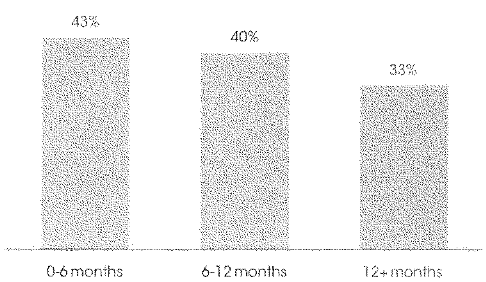
Source: Kansas Department for Children and Families

LESS TIME ON WELFARE MEANS LESS TIME OUT OF WORK

Getting able-bodied adults off welfare quickly is critical to moving them back into the workforce as soon as possible. Adults who spend less than six months on food stamps are significantly more likely to find employment within three months of leaving food stamps than those who languish in the program for more than a year.[43] Spending less time on food stamps is also related to higher incomes and larger income growth. In short, the less time spent on welfare, the quicker adults can get back to work and improve their financial situations.

Less time in welfare means less time without work

Share of able-bodied adults without dependents exiting December 2013 working in the first quarter of 2014, by enrollment duration prior to exiting



Source: Kansas Department for Children and Families

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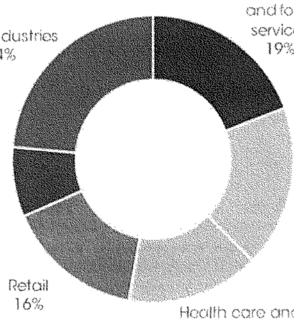
KANSANS ARE FINDING DIVERSE JOB OPPORTUNITIES

Able-bodied adults leaving food stamps are also finding a diverse field of job opportunities. While many found immediate work in food services or retail, others have found work manufacturing, transportation, and construction. Some have found work in health care and social services, while others have found jobs in publishing, information technology, and finance. Some have even found work protecting our national security. Better still, many who find temporary work in lower-wage industries then move on to better jobs as their skills improve.

Able-bodied adults leaving food stamps are finding diverse opportunities

Industry of employment for able-bodied adults without dependents exiting food stamps



Source: Kansas Department for Children and Families

KANSANS EARN MORE AFTER LEAVING WELFARE

Able-bodied adults leaving food stamps saw their incomes rise significantly in the months after being removed from the program. Before work requirements, this group's average income hovered around just $2,450 per year.[18] But within a year of leaving food stamps, their incomes spiked to an average of $5,562 per year.[19] That means these able-bodied adults increased their incomes by an average of 127 percent their first year off of the program. While an average income of nearly $5,600 is not the end goal of reform, incomes continue to rise as more able-bodied adults find employment and they have become more financially secure as a result. Even without full employment, this income growth is a dramatic change from the status quo of just one year before.

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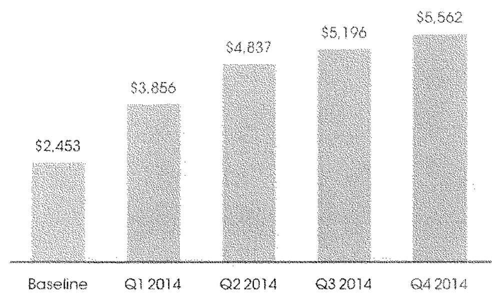
After leaving food stamps, incomes increased 127 percent

Average annualized wages of able-bodied adults without dependents exiting December 2013, by quarter



Source: Kansas Department for Children and Families

WORK REDUCED POVERTY

The number of able-bodied adults who are in poverty has dropped significantly as more and more able-bodied adults have found work. Before Kansas' welfare reforms, just 7 percent of the adults who left food stamps in December 2013 were above the poverty line.[46] They weren't just in marginal poverty, either. Nearly 84 percent were in severe poverty, earning less than half of the poverty line.[47] And even among those who were working, more than 80 percent were in poverty.[48]

But work changed their futures. Within a year of leaving food stamps, the number of able-bodied adults living in poverty dropped significantly and roughly half of those working climbed out of poverty entirely.[49] The average income among these working, able-bodied adults was just $6,730 per year prior to Kansas' reforms.[50] But within a year of leaving food stamps, average income among workers grew to $13,304 per year.[51] This means that the average income among those working is now above the poverty line.

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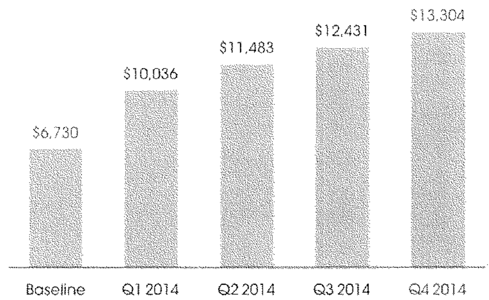
Kansans who went back to work are now above the poverty line

Average annualized wages of able-bodied adults without dependents exiting food stamps December 2013 who are working, by quarter



Source: Kansas Department for Children and Families

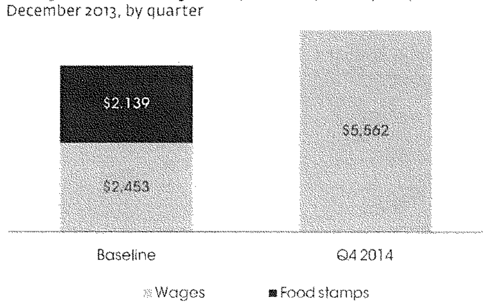
KANSANS WERE BETTER OFF AFTER LEAVING WELFARE

Thanks to work, these Kansans are far better off than they were while languishing on welfare. Before they left the program in December 2013, their incomes had averaged just $2,453 per year.[52] Add in their food stamp benefits, and they were living on roughly $4,600 per year.[53] But within a year of leaving the program, their incomes had increased to an average of $5,562 per year.[54]

This spike in income more than offset lost benefits. In fact, despite losing just over $2,000 in food stamps, these able-bodied adults have replaced those benefits with more than $3,000 in new income.[55]

Kansans are better off after leaving welfare

Average annualized wages and food stamps benefits of able-bodied adults without dependents exiting December 2013, by quarter



Source: Kansas Department for Children and Families

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WELFARE REFORMS HELP TAXPAYERS, SAVING NEARLY $100 MILLION OVER TWO YEARS

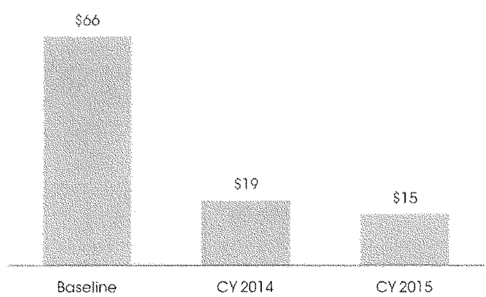
These reforms have saved taxpayers tens of millions of dollars each year, preserving limited resources for truly needy Americans. Instead of draining tens of millions of dollars out of the economy, these able-bodied adults are now adding to the local economy.They are also generating new resources that can be devoted to other state priorities, including education, public safety, and protecting the most vulnerable.

WELFARE REFORM HAS LOWERED COSTS

Kansas' welfare reforms have also improved the outlook for state and federal taxpayers. Prior to implementing work requirements, Kansas was spending approximately $5.5 million per month to provide food stamps to able-bodied childless adults.[56] By December 2015, those costs had dropped to less than $1.2 million per month.[57] Altogether, taxpayers are saving nearly $50 million per year as a result of these welfare reforms.[58] This is nearly $50 million per year in scarce government resources that can be preserved for the truly needy.

Work requirements are saving taxpayers nearly $50 million per year

Aggregate annual spending on food stamp benefits for able-bodied adults without dependents, in millions



Source: Kansas Department for Children and Families

WELFARE REFORM HAS INCREASED ECONOMIC ACTIVITY

Able-bodied adults who have left food stamps are now contributing millions of dollars to the economy and generating new tax revenues for the state. Overall, these adults – including those currently on food stamps and those who were disenrolled – are earning $74 million to $89 million more per year since Kansas implemented work requirements.[59]

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WELFARE REFORM HAS INCREASED STATE AND LOCAL TAX REVENUE BY UP TO $11 MILLION OVER TWO YEARS

Because this additional income more than replaces food stamps benefits, state and local governments have seen an increase in revenue flow. In fact, the income gains for this population are estimated to increase state income tax collections by up to $1.3 million per year.[60]

The state can also expect to see higher sales tax collections as a result of welfare reform. Groceries purchased with food stamps are not subject to sales tax, but Kansas does collect sales tax on other grocery purchases. If these adults continue to spend the same amount of money on groceries and other food items as they did when they were receiving food stamps, Kansas will collect up to an estimated $3.1 million per year in additional sales tax revenues.[61] Local governments will also collect up to $1.0 million in new sales tax revenues.[62]

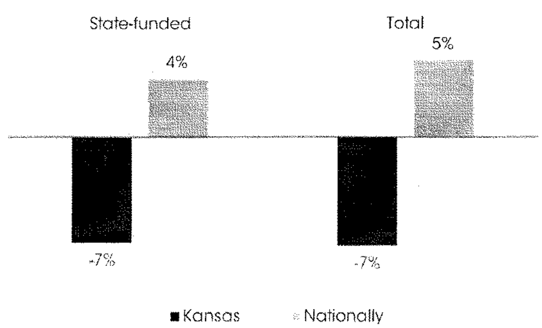
WELFARE REFORM DIDN'T INCREASE ADMINISTRATIVE BURDENS

Although some skeptics worried that implementing work requirements would increase administrative costs and errors, Kansas' experience shows just the opposite. While additional training and reporting may have been necessary at launch, a significantly lower caseload has balanced out those expenses. A lower caseload also allows the state to focus on helping remaining enrollees, instead of being overwhelmed and simply focusing on administering an ever-increasing program.

In 2014, for example, Kansas' food stamp administrative costs dropped by more than 7 percent. During the same time period, administrative costs were rising by more than 5 percent nationally and rose by more than 5 percent in Kansas the year before.[63] This massive drop in administrative costs saved state taxpayers saved $1.7 million and federal taxpayers an additional $1.6 million. Had Kansas followed the national average or its pre-reform trend, administrative costs would have instead increased by $2.4 million in 2014.

Total administrative costs dropped in 2014

Change in state-funded and total administrative costs between fiscal years 2013 and 2014



Source: U.S. Department of Agriculture

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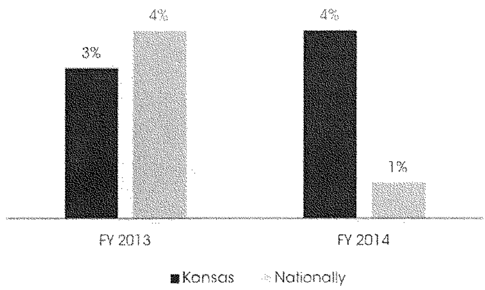
WELFARE REFORM DIDN'T INCREASE ERRORS

Skeptics have also expressed concern that work requirements would create new opportunities for payment errors, leading to possible federal penalties. But Kansas' payment error rate actually declined to less than 1 percent in 2014, down from nearly 4 percent the year prior.[64-65] All the while, the national payment error rate rose from 3 percent to nearly 4 percent.[66-67]

Kansas' error rate was the third lowest in the nation and the single most improved in 2014, earning the state $628,000 as a payment bonus.[68]

Kansas' payment error rate plummeted in 2014

Payment error rate, by fiscal year



Source: U.S. Department of Agriculture

CONCLUSION: KANSAS SHOWS THE BEST WELFARE REFORM AND ANTI-POVERTY POLICY

The data definitively shows that welfare reform works. Moving people off welfare gets them back to work, increases their income and improves their lives. Nearly three-fifths of those leaving food stamps found employment within 12 months and their incomes rose by an average of 127 percent per year. That higher income more than offset the food stamps they lost, increasing economic activity and bringing in new resources for other state priorities. Better still, the average income among working able-bodied adults is now above the poverty line.

Those still receiving food stamps, but now subject to a work requirement, are also better off. The typical enrollee has significantly increased their employment and incomes, although their incomes are not as high as those freed completely from welfare.

These reforms also provide much-needed relief for taxpayers, preserves resources for the truly needy, boosts the economy, and reduces the administrative burden that America's food stamp crisis has placed on states.

While Washington D.C. remains gridlocked, Kansas is proving that meaningful welfare reform can and should happen at the state level. Other states should follow their lead.

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APPENDIX

Table 1.a: Monthly enrollment – Able-bodied adults without dependents receiving food stamps

	Enrollment
January 2013	29,739
February 2013	29,434
March 2013	29,676
April 2013	29,784
May 2013	29,864
June 2013	30,121
July 2013	29,754
August 2013	29,816
September 2013	28,953
October 2013	28,144
November 2013	27,224
December 2013	25,913
January 2014	13,054
February 2014	11,764
March 2014	11,097
April 2014	10,729
May 2014	10,382
June 2014	9,924
July 2014	9,803
August 2014	9,765
September 2014	9,422
October 2014	9,193
November 2014	8,971
December 2014	8,567
January 2015	8,688
February 2015	8,481
March 2015	8,331
April 2015	8,337
May 2015	7,956
June 2015	7,761
July 2015	7,454
August 2015	7,654
September 2015	7,428
October 2015	7,601
November 2015	7,511
December 2015	7,403

Table 1.b: Average monthly enrollment by quarter – Able-bodied adults without dependents receiving food stamps

	Enrollment
Q1 2013	29,616
Q2 2013	29,923
Q3 2013	29,508
Q4 2013	27,094
Q1 2014	11,972
Q2 2014	10,345
Q3 2014	9,663
Q4 2014	8,910
Q1 2015	8,500
Q2 2015	8,018
Q3 2015	7,512
Q4 2015	7,505

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Table 2a. Monthly work participation rate - Able-bodied adults without dependents receiving food stamps

	Employed 20+ hours per week
July 2013	12.7%
August 2013	13.1%
September 2013	13.1%
October 2013	13.9%
November 2013	14.6%
December 2013	15.7%
January 2014	28.9%
February 2014	31.6%
March 2014	33.1%
April 2014	34.3%
May 2014	34.9%
June 2014	35.8%
July 2014	34.8%
August 2014	34.8%
September 2014	34.9%
October 2014	34.4%
November 2014	34.9%
December 2014	34.8%
January 2015	34.0%
February 2015	34.7%
March 2015	34.9%

Table 2b. Average monthly work participation rate by quarter - Able-bodied adults without dependents receiving food stamps

	Employed 20+ hours per week
Q3 2013	12.9%
Q4 2013	14.7%
Q1 2014	31.1%
Q2 2014	35.0%
Q3 2014	34.8%
Q4 2014	34.7%
Q1 2015	34.5%

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Table 3. Employment – Able-bodied adults without dependents receiving food stamps

	Total employed	Employed 20+ hours per week	Employed 1-19 hours per week
July 2013	21%	13%	9%
August 2013	22%	13%	8%
September 2013	22%	13%	8%
Q1 2013 Average	21%	13%	8%

	Total employed	Employed 20+ hours per week	Employed 1-19 hours per week
January 2015	42%	34%	8%
February 2015	42%	35%	8%
March 2015	42%	35%	7%
Q1 2015 Average	42%	35%	8%

Table 4. Aggregate and average wages – Able-bodied adults without dependents receiving food stamps

	Enrollment	Aggregate monthly wages	Average monthly wages	Average annual wages
July 2013	29,754	$4,543,039	$153	$1,832
August 2013	29,816	$4,681,613	$157	$1,884
September 2013	28,953	$4,547,396	$157	$1,885
Q1 2013 Average	29,508	$4,590,683	$156	$1,867

	Enrollment	Aggregate monthly wages	Average monthly wages	Average annual wages
January 2015	8,688	$3,114,655	$359	$4,302
February 2015	8,481	$3,095,636	$365	$4,380
March 2015	8,331	$3,026,327	$363	$4,359
Q1 2015 Average	8,500	$3,078,873	$362	$4,347

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Table 5a. Monthly benefit values – Able-bodied adults without dependents receiving food stamps

	Enrollment	Aggregate monthly benefits	Average monthly benefits
January 2013	29,739	$5,452,753	$183
February 2013	29,434	$5,494,953	$187
March 2013	29,676	$5,474,146	$184
April 2013	29,784	$5,504,211	$185
May 2013	29,864	$5,531,242	$185
June 2013	30,121	$5,563,926	$185
July 2013	29,754	$5,493,543	$185
August 2013	29,816	$5,513,092	$185
September 2013	28,953	$5,392,085	$186
October 2013	28,144	$5,231,962	$186
November 2013	27,224	$4,739,545	$174
December 2013	25,913	$4,497,437	$174
January 2014	13,054	$2,003,321	$153
February 2014	11,764	$1,811,526	$154
March 2014	11,097	$1,684,642	$152
April 2014	10,729	$1,625,220	$151
May 2014	10,382	$1,568,228	$151
June 2014	9,924	$1,484,551	$150
July 2014	9,803	$1,479,420	$151
August 2014	9,765	$1,486,043	$152
September 2014	9,422	$1,433,692	$152
October 2014	9,193	$1,457,345	$159
November 2014	8,971	$1,420,610	$158
December 2014	8,567	$1,372,519	$160
January 2015	8,688	$1,344,343	$155
February 2015	8,481	$1,344,360	$159
March 2015	8,331	$1,324,409	$159
April 2015	8,337	$1,320,744	$158
May 2015	7,956	$1,256,615	$158
June 2015	7,761	$1,210,435	$156
July 2015	7,454	$1,166,897	$157
August 2015	7,654	$1,200,228	$157
September 2015	7,428	$1,160,036	$156
October 2015	7,601	$1,181,046	$155
November 2015	7,511	$1,182,831	$157
December 2015	7,403	$1,160,235	$157

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Table 5b. Average monthly benefit values by quarter – Able-bodied adults without dependents receiving food stamps

	Enrollment	Aggregate monthly benefits	Average monthly benefits
Q1 2013	29,616	$5,473,951	$185
Q2 2013	29,923	$5,533,126	$185
Q3 2013	29,508	$5,466,240	$185
Q4 2013	27,094	$4,822,981	$178
Q1 2014	11,972	$1,833,163	$153
Q2 2014	10,345	$1,559,333	$151
Q3 2014	9,663	$1,466,385	$152
Q4 2014	8,910	$1,416,825	$159
Q1 2015	8,500	$1,337,704	$157
Q2 2015	8,018	$1,262,598	$157
Q3 2015	7,512	$1,175,720	$157
Q4 2015	7,505	$1,174,704	$157

Table 6a. Average enrollment duration by month of exit – Able-bodied adults without dependents exiting food stamps

	Exits	Average duration
December 2013	12,807	13.8
January 2014	2,687	9.7
February 2014	2,251	8.3
March 2014	1,858	7.8
April 2014	1,806	7.6
May 2014	1,903	7.8
June 2014	1,594	7.7
July 2014	1,495	7.1
August 2014	1,575	7.1
September 2014	1,530	7.2
October 2014	1,538	6.9
November 2014	1,355	7.6
December 2014	1,441	7.3
January 2015	1,360	6.9
February 2015	1,246	7.1
March 2015	1,174	7.3
April 2015	1,384	7.1
May 2015	1,313	7.1
June 2015	1,384	7.0

Table 6b. Average enrollment duration by quarter of exit – Able-bodied adults without dependents exiting food stamps

	Exits	Average duration
Q4 2013	12,807	13.8
Q1 2014	6,796	8.7
Q2 2014	5,303	7.7
Q3 2014	4,600	7.1
Q4 2014	4,334	7.3
Q1 2015	3,780	7.1
Q2 2015	4,081	7.1

Table 7. Employment records by quarter - Able-bodied adults without dependents exiting food stamps in December 2013

	Record of employment since Q4 2013	Employment Rate
Q1 2014	4,920	38.8%
Q2 2014	6,217	48.5%
Q3 2014	7,012	54.8%
Q4 2014	7,537	58.9%
Q1 2015	7,870	61.5%
Q2 2015	8,252	64.4%

Table 8. Wages by quarter - Able-bodied adults without dependents exiting food stamps in December 2013

	Aggregate wages of all disenrollees	Average quarterly wages of all disenrollees	Average quarterly wages among current workers
Q3 2013	$7,853,677	$613	$1,682
Q4 2013	$11,472,282	$896	$2,306
Q1 2014	$12,344,870	$964	$2,509
Q2 2014	$15,487,265	$1,209	$2,871
Q3 2014	$16,635,625	$1,299	$3,108
Q4 2014	$17,807,404	$1,390	$3,326

Table 9. Poverty status by quarter - Able-bodied adults without dependents exiting food stamps in December 2013

	Severe poverty rate	Severe poverty rate among workers	Poverty rate	Poverty rate among workers
Q3 2013	84%	56%	93%	81%
Q4 2013	78%	45%	88%	68%
Q1 2014	77%	40%	86%	64%
Q2 2014	73%	35%	82%	58%
Q3 2014	71%	31%	81%	54%
Q4 2014	71%	30%	79%	51%

Table 10a. Monthly benefit values - Able-bodied adults without dependents exiting food stamps

	Exits	Aggregate monthly benefits	Aggregate annual benefits	Average monthly benefits	Average annual benefits
December 2013	12,807	$2,282,720	$27,392,636	$178	$2,139
January 2014	2,687	$463,131	$5,557,576	$172	$2,068
February 2014	2,251	$377,898	$4,534,775	$168	$2,015
March 2014	1,858	$300,271	$3,603,257	$162	$1,939
April 2014	1,806	$288,852	$3,466,220	$160	$1,919
May 2014	1,903	$300,788	$3,609,458	$158	$1,897
June 2014	1,594	$259,232	$3,110,787	$163	$1,952
July 2014	1,495	$236,748	$2,840,978	$158	$1,900
August 2014	1,575	$245,432	$2,945,187	$156	$1,870
September 2014	1,530	$241,205	$2,894,454	$158	$1,892
October 2014	1,538	$253,216	$3,038,596	$165	$1,976
November 2014	1,355	$220,215	$2,642,575	$163	$1,950
December 2014	1,441	$234,451	$2,813,408	$163	$1,952
January 2015	1,360	$225,950	$2,711,405	$166	$1,994
February 2015	1,246	$202,587	$2,431,046	$163	$1,951
March 2015	1,174	$191,233	$2,294,794	$163	$1,955
April 2015	1,384	$230,671	$2,768,055	$167	$2,000
May 2015	1,313	$212,299	$2,547,588	$162	$1,940
June 2015	1,384	$219,973	$2,639,676	$159	$1,907

Table 10b. Average monthly benefit values by quarter - Able-bodied adults without dependents exiting food stamps

	Exits	Aggregate monthly benefits	Aggregate annual benefits	Average monthly benefits	Average annual benefits
Q4 2013	12,807	$2,282,720	$27,392,636	$178	$2,139
Q1 2014	6,796	$1,141,301	$13,695,607	$168	$2,015
Q2 2014	5,303	$848,872	$10,186,464	$160	$1,921
Q3 2014	4,600	$723,385	$8,680,619	$157	$1,887
Q4 2014	4,334	$707,882	$8,494,579	$163	$1,960
Q1 2015	3,780	$619,770	$7,437,245	$164	$1,968
Q2 2015	4,081	$662,943	$7,955,319	$162	$1,949

Table 11. Employment and income in the first quarter of 2014 by enrollment duration - Able-bodied adults without dependents exiting food stamps in December 2013

	Exits	Employment rate	Aggregate quarterly wages	Average quarterly wages	Average annual wages
0-6 Months	3,130	43%	$3,627,117	$1,159	$4,635
6-12 Months	4,778	40%	$4,926,710	$1,031	$4,124
12+ Months	4,899	33%	$3,791,054	$774	$3,095

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Table 12. Distribution of employment by employer sector and industry – Able-bodied adults without dependents exiting food stamps

Sector	Industry	Share of workers
Agriculture, Forestry, Fishing and Hunting		0.38%
	Crop Production	0.14%
	Animal Production	0.19%
	Forestry and Logging	0.00%
	Fishing, Hunting and Trapping	0.00%
	Agriculture and Forestry Support Activities	0.05%
Mining, Quarrying and Oil and Gas Extraction		0.56%
	Oil and Gas Extraction	0.06%
	Mining (Except Oil and Gas)	0.07%
	Support Activities for Mining	0.43%
Utilities		0.06%
Construction		3.55%
	Construction of Buildings	0.81%
	Heavy and Civil Engineering Construction	0.58%
	Specialty Trade Contractors	2.16%
Manufacturing		7.87%
	Food Manufacturing	2.40%
	Beverage and Tobacco Product Manufacturing	0.03%
	Textile Mills	0.02%
	Textile Product Mills	0.11%
	Apparel Manufacturing	0.05%
	Leather and Allied Product Manufacturing	0.00%
	Wood Product Manufacturing	0.12%
	Paper Manufacturing	0.05%
	Printing and Related Support Activities	0.28%
	Petroleum and Coal Products Manufacturing	0.02%
	Chemical Manufacturing	0.16%
	Plastics and Rubber Products Manufacturing	0.64%
	Nonmetallic Mineral Product Manufacturing	0.24%
	Primary Metal Manufacturing	0.11%
	Fabricated Metal Product Manufacturing	1.04%
	Machinery Manufacturing	0.60%
	Computer and Electronic Product Manufacturing	0.11%
	Electrical Equipment and Appliance Manufacturing	0.21%
	Transporation Equipment Manufacturing	0.97%
	Furniture and Related Product Manufacturing	0.41%
	Miscellaneous Manufacturing	0.30%

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Table 12. *(continued)* Distribution of employment by employer sector and industry – Able-bodied adults without dependents exiting food stamps

Sector	Industry	Share of workers
Wholesale Trade		1.82%
	Merchant Wholesalers, Durable Goods	0.79%
	Merchant Wholesalers, Nondurable Goods	0.70%
	Electronic Markets and Agents and Brokers	0.33%
Retail Trade		15.89%
	Motor Vehicle and Parts Dealers	1.10%
	Furniture and Home Furnishings Stores	0.27%
	Electronics and Appliance Stores	0.27%
	Building Material and Garden Supply Stores	0.95%
	Food and Beverage Stores	2.87%
	Health and Personal Care Stores	0.50%
	Gasoline Stations	2.44%
	Clothing and Clothing Accessories Stores	1.02%
	Sporting Goods, Hobby, Book and Music Stores	0.46%
	General Merchandies Stores	5.08%
	Miscellaneous Store Retailers	0.79%
	Nonstore Retailers	0.15%
Transporation and Warehousing		2.52%
	Air Transportation	0.01%
	Rail Transporation	0.01%
	Truck Transporation	0.97%
	Transit and Ground Passenger Transporation	0.65%
	Pipeline Transporation	0.00%
	Scenic and Sightseeing Transportation	0.00%
	Support Activities for Transportation	0.34%
	Postal Service	0.00%
	Couriers and Messengers	0.37%
	Warehousing and Storage	0.17%
Information		0.88%
	Publishing Industries (Except Internet)	0.16%
	Motion Picture and Sound Recording Industries	0.09%
	Broadcasting (Except Internet)	0.04%
	Telecommunications	0.42%
	Data Processing, Hosting and Related Services	0.05%
	Other Information Services	0.12%

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Table 12. *(continued)* Distribution of employment by employer sector and industry – Able-bodied adults without dependents exiting food stamps

Sector	Industry	Share of workers
Finance and Insurance		1.16%
	Monetary Authorities - Central Bank	0.00%
	Credit Intermediation and Related Activities	0.71%
	Securities, Commodity Contracts, Investments	0.04%
	Insurance Carriers and Related Activities	0.35%
	Funds, Trusts and Other Financial Vehicles	0.05%
Real Estate and Rental and Leasing		1.09%
	Real Estate	0.80%
	Rental and Leasing Services	0.28%
	Lessors of Nonfinancial Intangible Assets	0.01%
Professional and Technical Services		2.43%
Management of Companies and Enterprises		0.27%
Administrative and Waste Services		18.37%
	Administrative and Support Services	18.37%
	Waste Management and Remediation Services	0.18%
Educational Services		3.63%
Health Care and Social Assistance		15.43%
	Ambulatory Health Care Services	2.64%
	Hospitals	1.79%
	Nursing and Residential Care Facilities	7.11%
	Social Assistance	3.90%
Arts, Entertainment and Recreation		1.10%
Accomodation and Food Services	Performing Arts and Spectator Sports	0.20%
	Museums, Historical Sites, Zoos and Parks	0.03%
	Amusements, Gambling and Recreation	0.87%
		19.40%
	Accomodation	1.94%
	Food Services and Drinking Places	17.46%
Other Services		2.82%
	Repair and Maintenance	0.80%
	Personal and Laundry Services	0.86%
	Membership Associations and Organizations	1.01%
	Private Households	0.15%
Public Administration		1.52%
	Executive, Legislative and General Government	1.10%
	Justice, Public Order and Safety Activities	0.20%
	Administration of Human Resource Programs	0.12%
	Administration of Environmental Programs	0.02%
	Community and Housing Program Administration	0.01%
	Administration of Economic Programs	0.06%
	National Security and International Affairs	0.00%

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6. In 2012, approximately 16.3 million households were receiving food stamps. Just 2.3 million of these households were not receiving one or more additional means-tested government benefits. See, e.g., Census Bureau, "Survey of income and program participation: Economic characteristics of households in the United States," U.S. Department of Commerce (2014), http://www.census.gov/programs-surveys/sipp/publications/tables/hsehld-char.html.
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28. Ibid.
29. The baseline reflects the third quarter of 2013, immediately before work requirements went into effect.
30. Authors' calculations based upon data provided by the Kansas Department for Children and Families. See, e.g., table 3 in the appendix.
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54. Authors' calculations based upon data provided by the Kansas Department for Children and Families. See, e.g., table 8 in the appendix.
55. Authors' calculations based upon data provided by the Kansas Department for Children and Families. See, e.g., table 8 in the appendix.
56. Authors' calculations based upon data provided by the Kansas Department for Children and Families. See, e.g., tables 5a and 5b in the appendix.
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58. If spending had continued at the pre-reform baseline, taxpayers would have spent approximately $65.6 million per year on food stamps for able-bodied adults without dependents. Taxpayers actually spent just $18.2 million in 2014 and just $14.9 million in 2015. Approximately 93% of these savings are attributable to reduced enrollment and the remaining 7 percent are attributable to reduced average monthly benefits.
59. Authors' calculations based upon the average ratio of additional income to lost benefits and the total reduction in benefits. This additional income comes both from those who were disenrolled from the program and those who are meeting the new work requirement. The average ratio of additional income to lost benefits for those who left food stamps was applied to the approximately $48.1 million in estimated 2015 savings that were attributable to reduced enrollment. The average ratio of additional income to lost benefits for those who are still enrolled in the program was applied to the approximately $2.6 million in estimated 2015 savings that were attributable to reduced average monthly benefits. These estimates do not include any multiplier effect or any downstream activity induced by able-bodied adults' additional spending decisions.

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60 Authors' calculations based upon a review of de-identified individual-level data of able-bodied adults disenrolled in December 2013. This analysis uses annualized income from before the work requirements were implemented for each individual with a wage record, as well as actual 2014 wages for each individual. Because only 9 percent of able-bodied childless adults on food stamps in Kansas are married, tax brackets for a married couple are exactly twice the value of the brackets for single individuals, and the standard deduction for married couples is only marginally larger than twice the value of deduction for single individuals, this analysis assumes each individual is single and has no additional income not otherwise present in the wage records. Each individual's state tax liability was calculated based on current tax rates and the standard deduction. The effective tax rate on these adults' new income was then applied to all estimated additional income flowing from the work requirements to calculate gross income tax gains. These gross gains were then reduced by the estimated value of Kansas' earned income tax credits, using similar methods for each individual with wage records. No other deductions or credits were included in this analysis.

61 Authors' calculations based upon Kansas' sales tax rate and the aggregate value that food stamps benefits have declined from the baseline. These estimates were adjusted downward by approximately 2.6 percent to reflect the average proportion of issued benefits not redeemed within 30 days of issuance and by an additional 4.4 percent to reflect the average proportion of issued benefits redeemed out-of-state. This analysis assumes these individuals purchase the same pre-tax value of groceries and food items as they did while receiving food stamps. If individuals purchased the same after-tax value of groceries and food items as they did while receiving food stamps, it would reduce this estimate by up to $245,000 per year.

62. Authors' calculations based upon the average local sales tax rate and the aggregate value that food stamps benefits have declined from the baseline. These estimates were adjusted downward by approximately 2.6 percent to reflect the average proportion of issued benefits not redeemed within 30 days of issuance and by an additional 4.4 percent to reflect the average proportion of issued benefits redeemed out-of-state. This analysis assumes these individuals purchase the same pre-tax value of groceries and food items as they did while receiving food stamps. If individuals purchased the same after-tax value of groceries and food items as they did while receiving food stamps, it would reduce this estimate by up to $78,000 per year.

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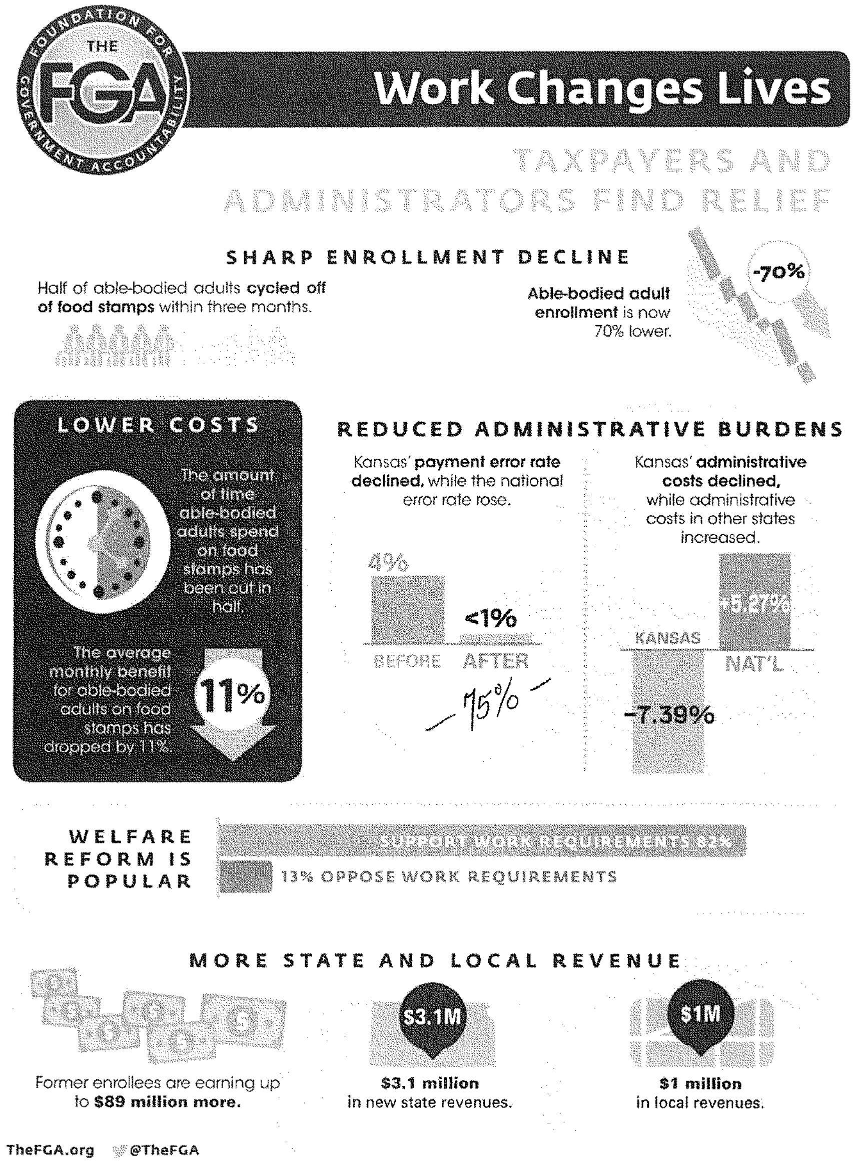
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Work Changes Lives
TAXPAYERS AND ADMINISTRATORS FIND RELIEF
SHARP ENROLLMENT DECLINE
Half of able-bodied adults cycled off of food stamps within three months.
Able-bodied adult enrollment is now 70% lower.
-70%
LOWER COSTS
The amount of time able-bodied adults spend on food stamps has been cut in half.
The average monthly benefit for able-bodied adults on food stamps has dropped by 11%.
11%
REDUCED ADMINISTRATIVE BURDENS
Kansas' payment error rate declined, while the national error rate rose.
4%
<1%
BEFORE
AFTER
75%
Kansas' administrative costs declined, while administrative costs in other states increased.
+5.27%
KANSAS
NAT'L
-7.39%
WELFARE REFORM IS POPULAR
SUPPORT WORK REQUIREMENTS 82%
13% OPPOSE WORK REQUIREMENTS
MORE STATE AND LOCAL REVENUE
Former enrollees are earning up to $89 million more.
$3.1M
$3.1 million in new state revenues.
$1M
$1 million in local revenues.
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Work Changes Lives

KANSANS NOW OFF WELFARE ARE THRIVING

What happens when you move people from welfare to work?

Kansas restored work requirements for able-bodied, childless adults in 2013

133%
Increase in average income of able-bodied childless adult enrollees

168%
Increase in work participation rate among enrollees

127%
Increase in average income among those who cycled off the program

MORE WORKERS

Able-bodied adults on food stamps are now nearly three times as likely to be working.

x3

Nearly half of able-bodied adults were **employed within one quarter of leaving food stamps.**

3 months

MORE MONEY

127%

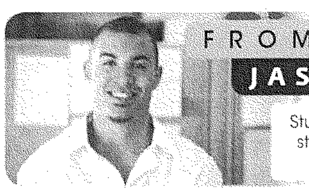
Able-bodied adults saw their **income rise by 127%** within a year of leaving food stamps.

Higher incomes more than offset benefit reductions, increasing economic activity.

AVERAGE INCOME AMONG THOSE WORKING IS NOW ABOVE THE POVERTY LINE

49%
Rate of those who cycled off the program working within three months

ON AVERAGE, ADULTS WHO LEFT THE PROGRAM LOST JUST OVER $2,000 IN BENEFITS, BUT GAINED MORE THAN $3,000 IN NEW INCOME



FROM WELFARE TO HOPE

JASON MILLER

Stuck on food stamps for 4 years.

Before work requirements: unemployed.

After work requirements: working in sales, making $45,000 per year.

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Source: Kansas Department for Children and Families; U.S. Department of Agriculture

JULY 31, 2017

Work Requirements are Working for Kansas Families

How welfare reform increases incomes and improves lives

AUTHORED BY:

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Senior Research Fellow

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FGA

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Executive Summary

After taking office in 2011, Kansas Governor Sam Brownback implemented some of the boldest welfare reforms in the nation in an effort to reduce dependency and help struggling families get back on their feet. These reforms include commonsense work requirements, smarter sanction policies, lower time limits, and stronger child support provisions, to name a few. Overall, these reforms have led to more employment, higher incomes, and less dependency.

One of the first changes Governor Brownback implemented was stronger sanctions for able-bodied adults who receive cash assistance but refuse to work, search for work, or participate in job training. Kansas also implemented an innovative tracking system to monitor employment for more than 6,000 families who left cash assistance as a result of these changes.

In short, parents who left dependency re-entered the labor force and found work in more than 600 different industries. These families have seen their incomes steadily rise, more than doubling within the first year. This increase in income more than offset lost cash welfare benefits, leaving them better off than they were before, providing a boost to the local economy and additional state tax revenue that can be dedicated to critical priorities.

The overwhelmingly positive result of Kansas' welfare reform presents important lessons for policymakers in other states and in Washington D.C. Work requirements are an essential tool to help struggling individuals and families get back on their feet. Policymakers everywhere who are serious about reducing dependency should follow Kansas' lead.

Background: What is TANF?

America's welfare programs were created to provide short-term, temporary help to individuals and families in need. But for far too many, welfare became a permanent way of life. Facing rising long-term dependency and the challenges that come with it, states began testing policies that promote work and keep families intact.[1-3]

Those state-level reforms eventually led to a bipartisan federal overhaul in 1996 (as part of welfare reform) that replaced the failing Aid to Families with Dependent Children (AFDC) entitlement program with a new Temporary Aid to Needy Families (TANF) block grant. The nation's largest cash assistance program was recalibrated towards new goals - encouraging employment, keeping families together, and reducing dependency.

To these ends, TANF capped the amount of time people could receive cash assistance at five years and implemented commonsense work requirements. These restrictions were designed to preserve limited resources for the truly needy and propel individuals back to independence as quickly as possible.

Under TANF work requirements, able-bodied adults are generally required to work, search for work, or participate in job training in order to receive cash welfare. Unfortunately, states are given significant leeway to define what counts as work and what penalties enrollees face if they refuse to meet the requirements. States have frequently used this leeway and other loopholes in federal law to undermine the fundamental goals of the program. As a result, work requirement standards - and even those who are considered to be "work eligible" - vary greatly by state.

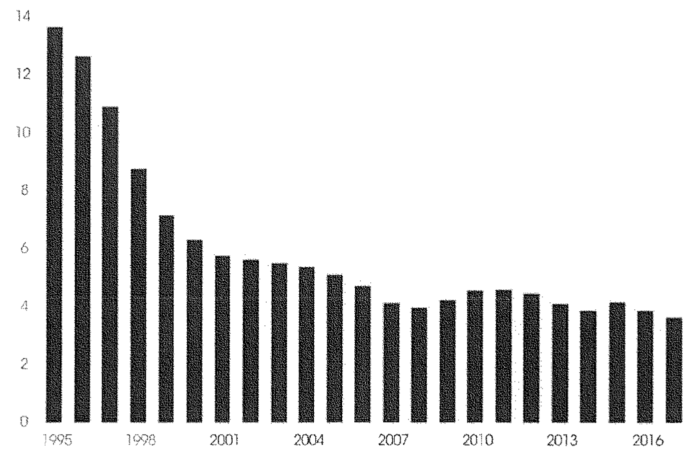
But even without uniform requirements, the restructuring of TANF has made significant progress towards accomplishing its goal of transforming an open-ended welfare entitlement into a temporary safety net.

In 1995, just a year before reform, more than 13.4 million individuals were dependent on welfare cash assistance.[4] But by 2000, enrollment had been cut in half, with just 6.3 million individuals dependent still on cash assistance.[5] Today, enrollment stands at just 3.7 million individuals.[6]

This represents a staggering 73 percent drop in dependency since the year before welfare reform was enacted with enrollment now reaching historic lows not seen since 1962.[7] Just 1 million of TANF's enrollees are able-bodied adults - nearly half of whom live in California.[8]

CASH WELFARE ENROLLMENT HAS DROPPED BY 73 PERCENT SINCE 1995

Enrollment in AFDC or TANF by year, in millions



A comprehensive analysis by the Congressional Research Service concluded that welfare reform not only reduced reliance on cash welfare but also reduced childhood poverty.[9] Better still, the work-first welfare reforms of the 1990s moved millions of welfare recipients into the labor force which in turn spurred greater economic growth.[10] Without a doubt, welfare reform has been wildly successful.

The Reform: Kansas Implements New TANF Sanctions

In the years immediately following federal welfare reform, Kansas' welfare story mostly mirrored what was happening elsewhere around the country. By 2000, enrollment in Kansas' cash welfare program had dropped by more than 60 percent.[11-12] The number of able-bodied adults dependent on cash assistance had dropped by nearly two-thirds.[13-14]

But then the trend began to reverse. Between 2000 and 2011, Kansas' cash welfare enrollment rose by nearly 22 percent compared to a 27 percent decline nationally.[15-16] Worse yet, while the number of able-bodied adults on cash welfare dropped by nearly a third nationally over that same time period, it increased by more than 42 percent in Kansas.[17-18] What changed?

Then-governor Kathleen Sebelius – who would go on to push for massive welfare expansions in the Obama administration – eased sanctions for able-bodied adults on TANF who refused to work, train, or search for employment, among other changes.[19-20] Under the new policy, there was no minimum sanction period, allowing able-bodied adults to resume receiving benefits within days or weeks of removal.[21] This created a revolving door where individuals could obtain a job, enroll in TANF, and then quit their job until their next eligibility review. As a result, the work participation rate plummeted and enrollment soared.[22]

When Gov. Sam Brownback took office, he had his work cut out for him. Thankfully, he did not shy away from the challenges facing the state but relentlessly pursued welfare reforms that have improved Kansans' lives.

One of Brownback's first major acts was to strengthen sanctions. Under his leadership, Kansas implemented a three-month minimum enrollment ban on individuals who refused to meet the work requirement.[23] The ban was extended to six months and one year for individuals who refused to meet the requirements a second or third time, respectively.[24] Individuals who refused to meet the requirement a fourth time were banned from the program for 10 years.[25]

Since these reforms took effect, compliance with work requirements has climbed from historic lows.[26-27] The percentage of able-bodied adults on the program who are employed has also risen.[28-29] Meanwhile, the opposite trends were occurring both nationally and in the region with fewer able-bodied adults on welfare working.

While there remains more work to be done to ensure as many families as possible move back onto the path of self-sufficiency through employment, Kansas has made incredible progress in just a few short years.

The Innovation: Tracking Kansans' Success

As part of their initiative to help Kansans back into self-sufficiency, the Brownback administration put in place an innovative, first-of-its-kind tracking system for families leaving TANF as a result of the new sanctions. The Kansas Department for Children and Families began sharing data with the Kansas Department of Labor, allowing the agencies to match each adult leaving TANF with quarterly employment information, including employment status, wages, and employer industries. The agencies combined this data with existing administrative records on enrollment dates, enrollment duration, average monthly benefits, and other demographic information. This data should be considered the lower bound on income growth, as it only includes wages reported to the Kansas Department of Labor. Income that was earned in neighboring states or as independent contractors could not be captured in the tracking system. Data from neighboring states or tax returns would likely show an even larger improvement in earnings.

This data-driven approach allowed the state to track what happened to able-bodied adults who were removed from the program for refusing to meet commonsense work requirements. This new data system provided the state with new tools to measure success, at both the individual and program level.

The Result: Kansans Thrive After Leaving Welfare

As part of the analysis, Kansas tracked more than 6,000 families - representing more than 17,000 individuals - for up to four years after being removed from TANF under the new sanctions. Overall, families returning to independence are earning more, finding new employment in hundreds of diverse industries, and are ultimately better off than they were on welfare.

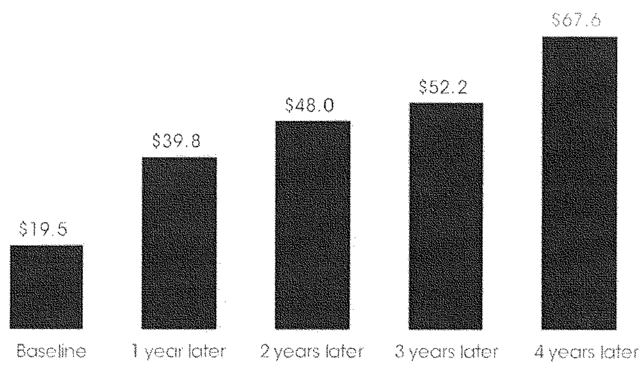
1. Kansans' incomes more than doubled

   Kansas families who left welfare under the new sanctions saw their earnings more than double, increasing by an average of 104 percent within just one year.[30] In total, this is $20 million more than they were earning while dependent on welfare.[31]

   Incomes continued to climb each year for those removed, eventually more than tripling - increasing by 247 percent within four years.[32] Over that same period, these families saw an estimated $48 million increase in wages.[33]

KANSAS FAMILIES ARE EARNING $48 MILLION MORE PER YEAR SINCE LEAVING WELFARE

Combined annual wages for families leaving TANF after work requirement sanctions, in millions

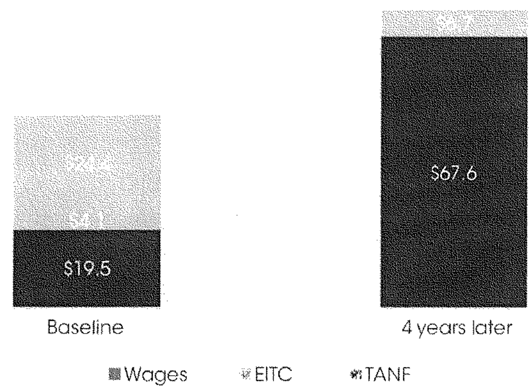


2. Families are better off than they were before

Kansans who regained their independence not only saw higher wages – they are also better off on net than when they were on welfare. Higher earnings and additional earned income tax credits more than offset the value of welfare benefits these families lost. That means these families are now earning more than their previous earnings and benefits combined, giving a boost to local economies and providing additional income tax revenues for other critical state priorities. Within four years, higher wages and additional earned income tax credits provided more than $26 million in higher income than these families were earning and collecting in welfare benefits before.

HIGHER INCOME MORE THAN OFFSET LOST WELFARE BENEFITS

Combined annual wages, EITC, and TANF benefits for families leaving TANF after work requirement sanctions, in millions



3. Job gains were diverse

Work provides more than just a paycheck. Work provides dignity, self-worth, the opportunity for earned success, and even happiness – something a plastic EBT card will never provide. Nevertheless, critics of work requirements frequently suggest that enrollees who leave welfare are only able to find low-wage, entry-level employment. The implication is that these individuals would be better off trapped in a lifetime of dependency.

But data from the Kansas Department of Labor shows that these claims are unfounded. Able-bodied adults removed from TANF found employment in more than 600 different industries, ranging from health care to finance to information technology. Even better, those who did find initial employment in entry-level jobs – such as those in food service, retail, or temp agencies – quickly found longer-term, higher-paying jobs. Nearly half of those leaving welfare found these jobs within three months of removal, with employment rates continuing to rise each month thereafter.

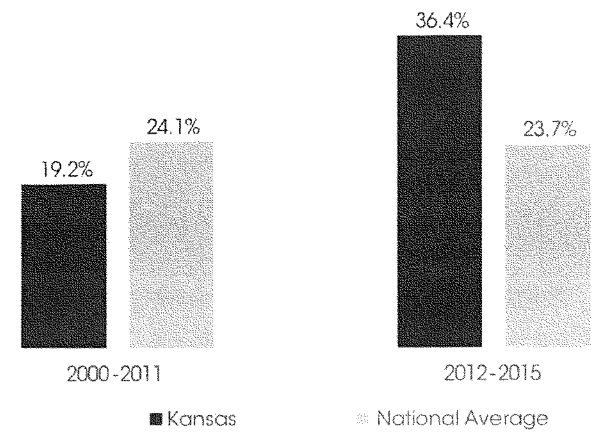
4. TANF is better equipped to help the truly needy

In addition to the impressive progress made by newly-independent families post-reform, Kansas is also now enjoying a healthier TANF program that can better manage resources for the truly needy.

For starters, a higher percentage of adults in TANF are now working. From 2000-2011, Kansas' TANF work participation rate averaged a measly 19.2 percent.[34] Over that same period, the national work participation rate hovered around 24.1 percent.[35] But since the sanctions changes were implemented, Kansas' work participation rate has climbed to 36.4 percent while the national rate has dropped slightly to 23.8 percent.[36-37]

ENROLLEES ARE MORE LIKELY TO BE WORKING IN KANSAS SINCE THE POLICY CHANGE

Average employment rates for adult TANF enrollees

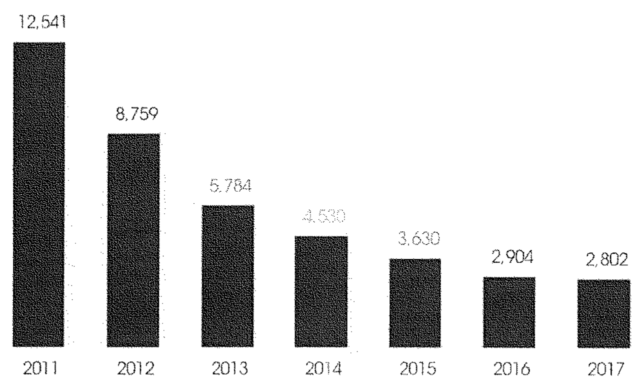


After a decade of little progress, the number of able-bodied adults dependent on cash assistance has finally started to decline again. The number of able-bodied Kansan adults on TANF has dropped by nearly 78 percent.[38-39] Nationally, adult enrollment has declined by only 14 percent during this same time.[40-41]

It is worth noting that Kansas was implementing other meaningful welfare reforms during this same time, so stronger sanction policies cannot be credited for the full decline. But Kansas' new emphasis on work certainly played a large part. Thanks to a combination of reforms, the number of Kansas dependent on cash assistance is now at an all-time low.[42-43]

ABLE-BODIED ADULT ENROLLMENT HAS DROPPED BY 78 PERCENT IN KANSAS

Adult enrollment in TANF by year



Lessons learned from Kansas' welfare reform

These latest findings from Kansas build on previous analyses on the impact of work-focused policies on welfare programs. In 2016, the Foundation for Government Accountability published a study about the impact of work requirements on able-bodied childless adults collecting food stamps.[44] After tracking employment for nearly 41,000 able-bodied adults for more than a year after leaving food stamps, able-bodied adults who left food stamps went back to work in record numbers, saw their incomes more than double, and were better off than they were before.[45] The number of able-bodied adults dependent on welfare also plummeted and the amount of time those adults spent on the program was cut in half.[46]

Soon thereafter, Maine conducted its own analysis of nearly 7,000 able-bodied adults leaving food stamps as a result of the work requirement, finding similar results: more work, higher incomes, and less dependency.[47] Similar results were found after Maine tracked nearly 2,000 TANF enrollees leaving the program after the state began enforcing time limits.[48]

This body of research – combined with this latest analysis – presents important takeaways for policymakers in Washington D.C. and state capitols around the country.

1. Work matters – for everyone

   For years, policymakers have expressed concern about enrollees who are near the eligibility cutoff for welfare and the discouraging effect this can have on their motivation to better themselves. But this body of research highlights a more fundamental problem: few enrollees on welfare are working at all, meaning few individuals are on the margin of eligibility.

   The result is that any welfare cliff that exists likely has minimal impact on discouraging work. Instead, the real problem with the welfare trap is that the vast majority of enrollees have no earnings at all. Fortunately, the solution to this problem is clear – work requirements.

   The research is clear and consistent: once able-bodied adults leave welfare, they re-enter the workforce and their wages skyrocket.

   Higher incomes, better lives, and more opportunity – these are the standards by which government should measure the success of its welfare programs. Work requirements are an incredibly effective tool for meeting these metrics.

   These findings are critical not just for childless adults on food stamps or low-income parents on cash assistance but for all able-bodied adults on any welfare program.

2. States should strengthen work requirements

Although Kansas, Maine, and other states have illustrated the power work requirements, several states are still waiving commonsense rules that require able-bodied childless adults to work, train, or volunteer on a part-time basis.[49] These Obama-era waivers keep productive workers trapped in dependency and out of the workforce, which not only hurts them but does damage to the economy at large and siphons away limited resources that could otherwise go to fund services for the truly needy.

States should let these waivers expire and the Trump administration should reverse federal rules that allow states like Rhode Island to continue waiving work requirements despite a statewide unemployment rate of 3.6 percent.[50-51] This would bring states back in line with federal law and help hundreds of thousands of able-bodied adults regain their independence, increase their incomes, and create better lives for themselves than welfare ever could.

States should also follow the lead of Arkansas, Maine, and Wisconsin, all of which are moving to implement commonsense work requirements in Medicaid.[52-54]

Wisconsin in particular is also seeking to expand work requirements in food stamps to able-bodied adults with school-age children, ensuring consistency across programs and bringing work back to the forefront.[55] The Trump administration should quickly approve these requests and encourage other states to implement similar reforms.

Finally, state policymakers should strengthen sanctions across all welfare programs for able-bodied adults who refuse to work, ensuring these sanctions are strong enough to help as many families regain their independence as possible.

3. Congress should expand work requirements to all welfare programs

While states like Kansas have done the hard work to prove that work requirements are critical to moving people out of dependency, state policymakers are hamstrung by federal rules. Current rules prohibit states from expanding work requirements to other welfare programs – such as Medicaid – without first seeking special permission. Even in programs with work requirements, like TANF and food stamps, federal rules restrict who the rules can apply to and thereby hinder states from making the programs as effective as possible.

As the debate over welfare reform heats up in Washington, Congress should learn from state-led welfare reform initiatives and empower state policymakers to incorporate work requirements for able-bodied adults in as many welfare programs as possible. In so doing, they will be giving millions of American families the hand up they desperately need.

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[Submission of Mr.Palmer follows:]

[April 19, 2016; Main Office of Policy and Management]

Analysis of Work Requirement Policy on Wage and Employment Experiences of ABAWD in Maine

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Director
Jonathan P. LaBonté

Date:	April 19, 2016
To:	Commissioner Mayhew
From:	Paul Leparulo, Deputy Director of OPM Amanda Rector, State Economist
Subject:	Preliminary analysis of work requirement policy on the wage and employment experiences of ABAWDs in Maine

In mid-March, the Governor's Office of Policy and Management (OPM) was asked to analyze the wage and employment experiences of Able Bodied Adults Without Dependents (ABAWDs) following Maine's decision in 2014 to no longer request a waiver from the federal ABAWD work requirement rule. We are pleased to present the results of our preliminary analysis on this matter in the attached brief.

The analyses were made possible through the linking of administrative data from the Maine Department of Health and Human Services with wage and employment records available at the Maine Department of Labor. Bringing together these disparate data sets enabled OPM to evaluate the labor market outcomes for three cohorts of ABAWDs— those who refused to comply with the new requirements, those who were removed from the program due to earning wages beyond the allowable levels, and those who opted to comply with the new requirements. OPM received an initial data set on March 29 and the final data set on April 7.

The group of ABAWDs who did not comply with the work requirement rule experienced a significant increase in total wages in the following year. For the group as a whole, total wages increased 114 percent from the third quarter of 2014, the pre-policy baseline quarter, through the fourth quarter of 2015. Average quarterly wage growth drove these gains, increasing 77 percent from the baseline quarter through the fourth quarter of 2015. The number with a wage record increased 21 percent over the same time frame.

The group of ABAWDs that complied with the work requirement rule experienced a 20 percent increase in total wages from the baseline period through the fourth quarter of 2015. Average wages increased 32 percent while the number with a wage record declined nine percent. Total wages for the ABAWDs who were removed from the program due to their earnings increased 24 percent from the baseline period through the fourth quarter of 2015. Average quarterly wages and the number with a wage record increased 20 and four percent, respectively.

Not all individuals were found in the wage record system, which limits our ability to understand the impact of the policy on the entire cohort. For example, fewer than 60 percent of the non-complying group were found to have wage records in Maine. A second phase of analysis would hopefully include IRS data from the 1099 forms to capture self-employment information. Wage records typically cover nearly all of employment but do not capture the self-employed meaning the true employment rates are likely higher than reported here.

Welfare to Work: Preliminary Analysis of Work Requirements on the Wage and Employment Experiences of Able-Bodied Adults Without Dependents (ABAWDs) in Maine

Prepared by the Governor's Office of Policy and Management April 19, 2016

In 2014, the Maine Department of Health and Human Services decided that it would no longer request a waiver from the federal work requirement rules for Able-Bodied Adults without Dependents (ABAWDs). The Governor's Office of Policy and Management was asked to analyze the wage and employment experiences of ABAWDs in the first year following the implementation of this policy change. This brief contains a preliminary analysis; there are several areas where additional data sources could provide a more detailed look at the employment outcomes of ABAWDs.

Preliminary findings:

- Overall, 58 percent of the non-complying cohort, 65 percent of the closed for earnings cohort, and 87 percent of the complying cohort were found to have a wage record in the UI wage system in Maine at some point in 2014 or 2015.

- The group of ABAWDs that were closed out of the Maine food supplement program in December 2014 for noncompliance experienced a significant increase in total wages in the following year. For the group as a whole, total wages increased 114 percent from the third quarter of 2014, the pre-policy baseline quarter, through the fourth quarter of 2015. Growth in total wages was driven by strong gains in average quarterly wages, which grew 77 percent from the baseline quarter through the fourth quarter of 2015. The number with a wage record increased 21 percent over the same time frame.

- The group of ABAWDs that complied with the work requirement rule experienced a 20 percent increase in total wages from the baseline period through the fourth quarter of 2015. Average wages increased 32 percent while the number with a wage record declined nine percent.

- Total wages for the ABAWDs that were closed for earnings increased 24 percent from the baseline period through the fourth quarter of 2015. Average quarterly wages and the number with a wage record increased 20 and four percent, respectively.

- Average wages for the closed for earnings cohort were the highest in all quarters; wages for the non-complying group were the lowest.

- Trends in the percent of ABAWDs with a wage record diverged—the non-complying group experienced an increase, the complying group a decrease, and the closed for earnings cohort remained flat.

Methodology:

- Three cohorts of ABAWDs from December 2014 were evaluated to assess the impact of work requirements on average wages and employment. These groups are those that closed for non-compliance (6,866 individuals), closed for earnings (103 individuals), and those that complied with the new requirements as of December 2014 (2,703 individuals).
- The Department of Health and Human Services identified the individuals in each cohort in December 2014 and matched them to individual wage records for each quarter of 2014 and 2015 from the Maine Department of Labor (DOL).

- These cohorts were 'walked back' to the third quarter of 2014 to create a pre-policy baseline for the ABAWDs evaluated in this study. This assumes that these individuals were receiving food supplements in the quarter prior to the policy change.

- Average wages were calculated by including only those individuals with a wage record in any particular quarter. In other words, any zeros for the quarter were excluded from the average. The number of individuals included in the average wage calculation varies by quarter and matches the number with wage records for that quarter.

Caveats & Limitations:

- This study utilizes wage records from the Maine DOL. Wage data are available for jobs in Maine that are covered under the unemployment insurance (UI) program. While this covers nearly all of the employed, it does not include self-employed workers, most agricultural workers on small farms, all members of the Armed Forces, elected officials, most employees of railroads, some domestic workers, most student workers at schools, and employees of certain small nonprofit organizations. Therefore, the figures reported here underrepresent the complete employment results of the cohorts. Specifically, the actual percentages of employed ABAWDs and total wages would be higher than what is reported using UI wage records alone. However, because average wages are calculated using only those workers with a UI wage record (individuals that are 'not found' are excluded from the calculation), the effects on average wages are ambiguous. Additional data sources, such as 1099 IRS data and out of state wage sources, would enable a more comprehensive evaluation.

- The complying cohort represents those that met the requirements of the new policy in December 2014. These individuals may not have remained on food supplements throughout 2015.

- While most of the cohort in compliance with the work requirements met those requirements by working, a few may have been fulfilling the requirements through either job training or volunteer efforts.

- The analyses and results are limited to the data provided from DHHS and are contingent on the classification of ABAWDs into the three cohorts described above. The disaggregation of ABAWDs into these cohorts was provided by DHHS.

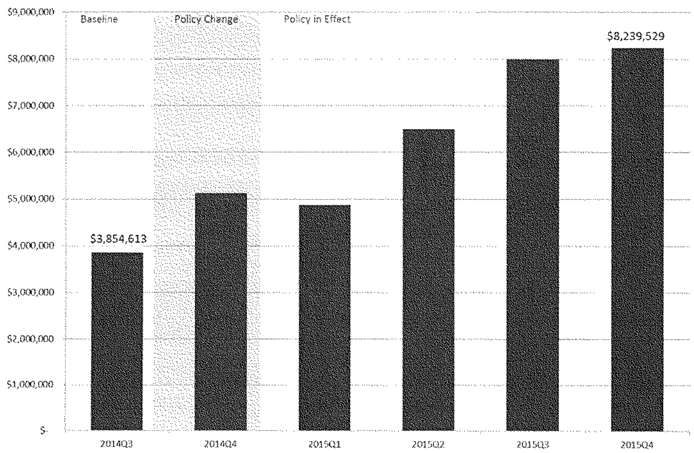
Total Quarterly Wages

ABAWDs Closed for Non-Compliance

In December 2014, 6,866 ABAWDs did not comply with the reinstatement of work requirements and were closed out of the Maine food supplement program. Total wages for this group are displayed in Figure 1, below.

Figure 1

Total Quarterly Wages of those with Wage Records - ABAWDs Closed for Non-compliance



- Total wages increased 114 percent from $3.8 million in the third quarter of 2014 to $8.2 million in the fourth quarter of 2015.

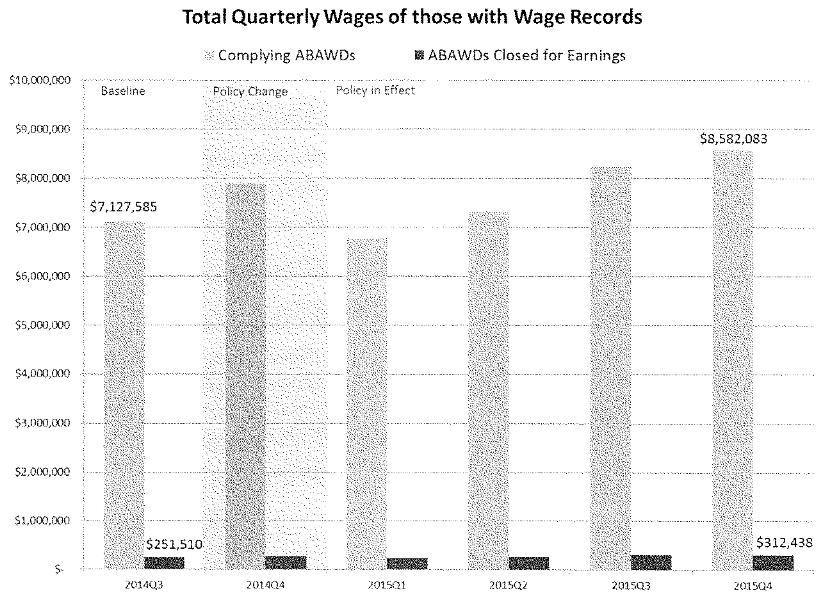
- During the quarter of policy implementation (the fourth quarter of 2014), total wages increased 33 percent from the third quarter. In the first full quarter after being closed out of the food supplement program (first quarter of 2015) total wages declined five percent from the previous quarter. During the remaining quarters of 2015 total wages increased 33, 23 and three percent on a quarter over quarter basis.

- It is important to note that Maine's economy is highly seasonal: employment tends to be highest in the summer months and during the holiday season before reaching a low point during the first quarter of the year. This seasonality impacts both employment numbers and wage data (both total and average wages). The data in this analysis is subject to the same seasonal patterns.

- Year over year growth in total wages for the non-complying group were also very strong after leaving the food supplement program. During the third and fourth quarters of 2015, total wages increased 107 and 61 percent, respectively, on a year over year basis.

In December 2014, 103 ABAWDs had earnings that exceeded the maximum allowed and were closed out of the food supplement program. In the same month, 2,703 ABAWDs were complying with the reinstated federal work requirements and were receiving benefits from the food supplement program. Total wages for these two groups are displayed in Figure 2, below.

Figure 2



- Total wages for the ABAWDs complying with the work requirement increased 20 percent from $7.1 million in the third quarter of 2014 to $8.6 million in the fourth quarter of 2015 while total wages for ABAWDs closed for earnings increased 24 percent from $252,000 to $312,000.

- Year over year growth in total wages for the closed for earnings cohort was stronger than for the complying cohort. During the third and fourth quarters of 2015, total wages for the closed for earnings cohort increased 22 and 15 percent, respectively, on a year over year basis while total wages for the complying cohort increased 16 and 9 percent.

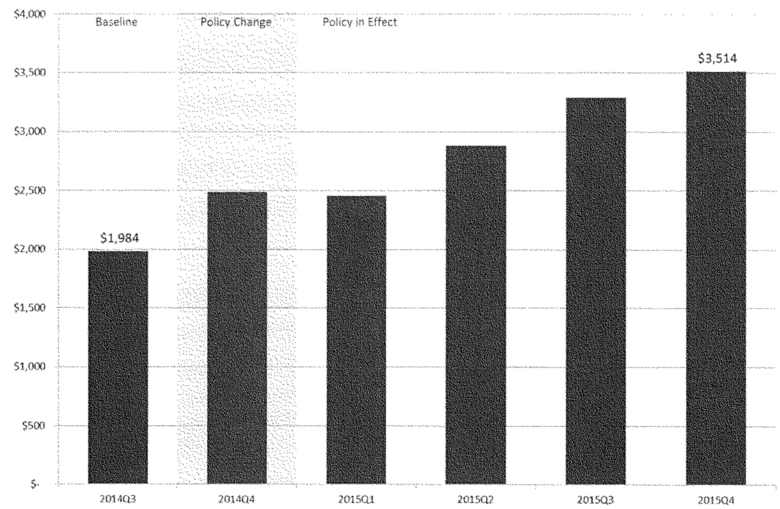
Average Quarterly Wages

ABAWDs Closed for Non-compliance

ABAWDs Closed for Earnings and ABAWDs Complying with Work Requirements

Figure 3

Average Quarterly Wages of those with Wage Records - ABAWDs Closed for Non-compliance

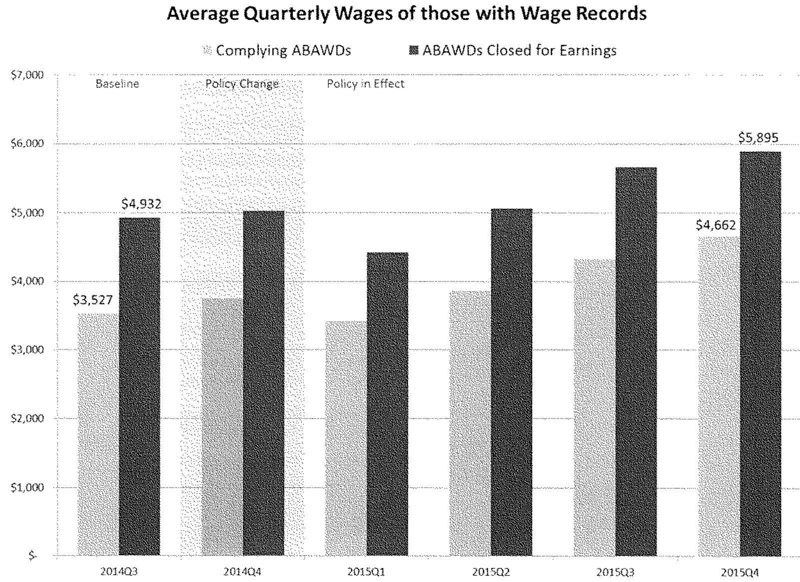


- Total wage growth for the non-complying group was driven by strong gains in average quarterly wages, which increased 77 percent from $1,985 in the third quarter of 2014 to $3,514 in the fourth quarter of 2015 (Figure 3). On a quarter over quarter basis, average wages increased 25 percent during the quarter of policy implementation, declined one percent in the first quarter of 2015, and increased 17, 14, and seven percent sequentially during the next three quarters. These trends more than exceeded the growth in statewide average wages across all industries using comparable UI data. Statewide average quarterly wages increased 10 percent during the fourth quarter of 2014, followed by a four percent decline in the first quarter of 2015, a three percent decline in the second and a one percent increase in the third quarter (fourth quarter statewide wage data are not yet available). Readers should note that the wage levels for ABAWDs are much lower than the statewide average wage (which are approximately $10,000 per quarter), and this results in a larger percentage change for a given dollar increase in wages.

- On a year over year basis, average quarterly wages increased sharply, gaining 27, 53, 66, and 41 percent for the four quarters of 2015, respectively, compared to 2014.

- Average quarterly wages for ABAWDs closed for non-compliance were lower than the average wages of the other two cohorts, but saw the largest percentage gains among the three groups.

Figure 4



- Average quarterly wages for these two cohorts followed the same general pattern as the closed for noncompliance cohort: wages increased in the fourth quarter of 2014 followed by a decline in the first quarter of 2015 and then increased throughout the remainder of the year. These trends reflect some seasonality.

- Average wages for the closed for earnings group were the highest for all cohorts but growth rates were lower than what the other groups experienced. Average quarterly wages for this group increased two percent in the fourth quarter of 2014 and declined 12 percent in the first quarter of 2015. Thereafter, average wages increased 14, 12, and four percent during the remaining quarters of 2015, respectively. Average wages for the third and fourth quarters of 2015 were 15 and 20 percent, respectively, above the baseline average wages for this cohort.

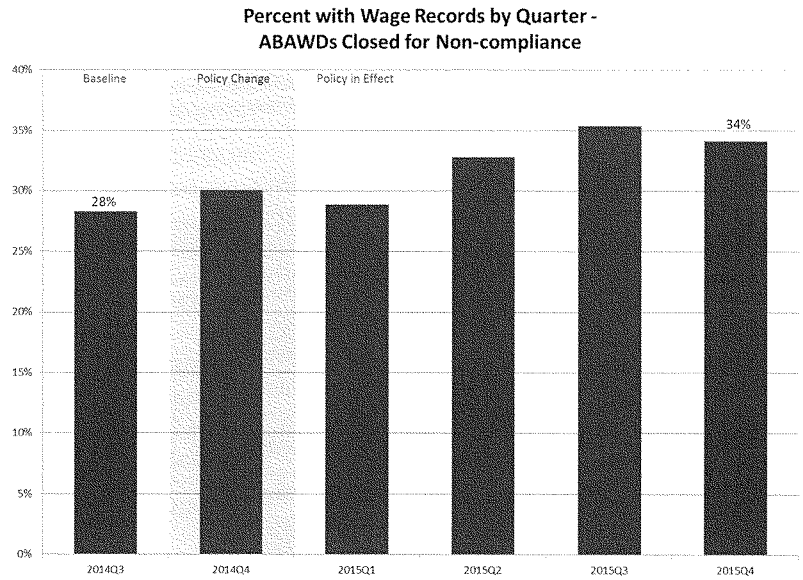
- Average quarterly wages for the complying cohort increased six percent in the quarter of policy implementation compared to the previous quarter, followed by a nine percent decline in the first quarter of 2015. Thereafter, average wages increase 13, 12 and eight percent during the second, third and fourth quarters of 2015 on a quarter over quarter basis. Average quarterly wages in the third and fourth quarter of 2015 were 22 and 32 percent, respectively, above the baseline average wages.

Percent with a Wage Record

ABAWDs Closed for Earnings and ABAWDs Complying with Work Requirements

ABAWDs Closed for Non-compliance

Figure 5



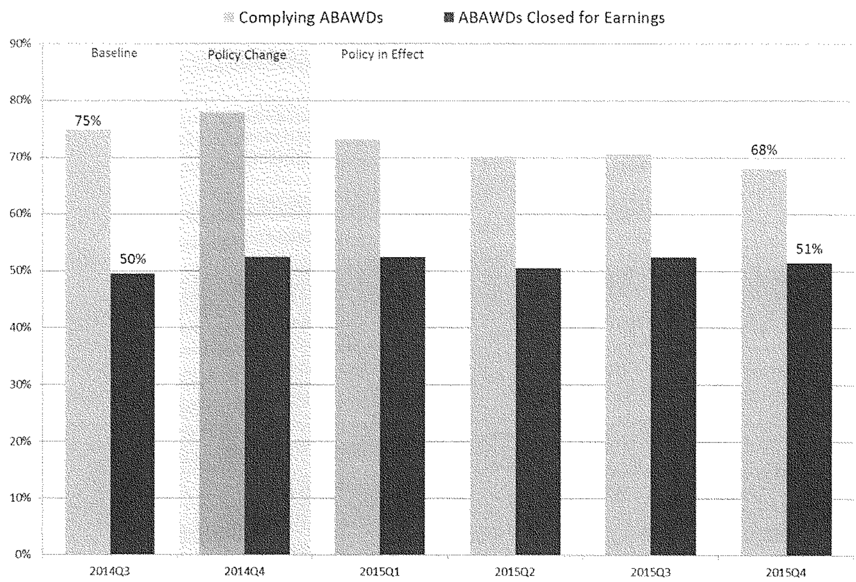
- Of the 6,866 ABAWDs closed for non-compliance in December of 2014, 28 percent (1,943) had wage records in the baseline period and 34 percent (2,345) had wage records in the fourth quarter of 2015, an increase of 21 percent. The number of ABAWDs closed for non-compliance with wage records was higher during the second, third, and fourth quarters of 2015 than during the preceding three quarters.

- The share of ABAWDs with a wage record was higher in the third and fourth quarters of 2015 compared to the corresponding quarters in 2014. This growth indicates that more ABAWDs had wage records—and thus had some form of employment—after the policy took effect and after compensating for seasonality.

- Overall, 58 percent of the 6,866 ABAWDs closed for non-compliance were found to have a wage record at some point during 2014 or 2015. However, the share of ABAWDs with a wage record in any given quarter was lower, ranging from 28 to 34 percent. Adding additional wage data sources, such as 1099 IRS data and out of state wage sources would enable a more comprehensive evaluation for this group.

Figure 6

Percent with Wage Records by Quarter



- The ABAWDs complying with the federal work requirements had the highest employment ratios (72 percent average for all six quarters). However, the percent with a wage record declined from 78 percent in the fourth quarter of 2014 to 68 percent in the fourth quarter of 2015. Overall, 87 percent of the complying cohort had a wage record at some point during 2014 or 2015.

- The percent of ABAWDs closed for earnings with wage records was essentially unchanged during the entire analysis period. This is a small group, however; of the 103 ABAWDs closed for earnings in December 2014, 51 had wage records in the baseline period and 53 had wage records in the fourth quarter of 2015. Overall, 65 percent of this cohort had a wage record at some point during 2014 or 2015.

[Additional submission of Mr.Palmer follow:]

[May 19, 2016; Forbes; Opinion]
New Report Proves Maine's Welfare Reforms Are Working
By Jonathan Ingram and Josh Archambault

New Report Proves Maine's Welfare Reforms Are Working

The Apothecary

Insights into health care and entitlement reform. FULL BIO v
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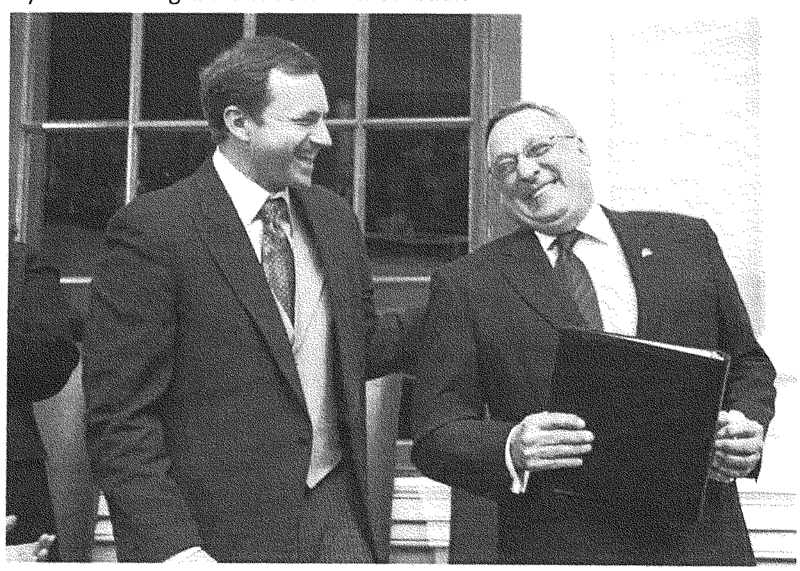
Josh Archambault, Contributor

TWEET THIS

federal officials missed the huge potential upside of getting more individuals back into the workforce.

Within a year, these able-bodied adults saw their incomes rise by an average of 114%.

By Jonathan Ingram and Josh Archambault



https://www.forbes.com/sites/theapothecary/2016/05/19/new-report-proves-maines-welfare-reforms-are-working/#5d8634cd3f6a

Gov. Paul LePage, right, accepts a pat on the backfrom Democratic Speaker ofthe House Mark Eves. (AP Photo/Rober(+]

Maine Gov. Paul LePage's recent welfare reforms have led to more employment, higher wages, and less dependency, according to a preliminary report published by the Maine Department of Health and Human Services and the Maine Office of Policy and Management.

In October 2014, Maine began requiring about 16,000 able-bodied childless adults to work, train, or volunteer on at least a part-time basis in order to continue receiving food stamps. Adults who refused to comply with the new requirements would cycle off after three months of benefits.

Reform Led To Less Dependency

After implementing these reforms, Maine quickly moved thousands of able-bodied adults out of dependency and into self-sufficiency. By January 2015, the number of able-bodied adults on food stamps had dropped to 4,500 and has continued to decline.

These changes drew ire from the Obama administration, especially from Agriculture Secretary Tom Vilsack. But federal officials missed the huge potential upside of getting more individuals back into the workforce.

Today, just 1,500 able-bodied childless adults rely on Maine's food stamps program.

Those still relying on the program also need less assistance overall, as they are working more, with average benefits dropping 13% since the work requirements went into effect. As a result of these changes, taxpayers are now saving between $30 million and $40 million each year.

More importantly, Maine's success story goes far beyond taxpayer savings. Maine's Department of Health and Human Services connected with the state's Department of Labor in order to evaluate the impact of the reforms. State officials then tracked employment and wage records for nearly 7,000 able-bodied adults as they cycled off food stamps when the work requirements were first implemented.

Reform Led To Much Higher Income Pulling People Out Of Poverty

The results were impressive. Within a year, these able-bodied adults saw their incomes rise by an average of 114%. That increase came as more able-bodied adults re-entered the labor force, worked more hours, or found jobs with higher wages. Thanks to this higher income, poverty rates have declined and now, working able-bodied adults are earning more than enough on average to bring them above the federal poverty line.

Better still, the higher wages more than offset lost benefits, meaning those leaving welfare were better off than when they were trapped in government dependency. After Maine implemented its reforms, these able-bodied adults saw their incomes go up by a combined $18 million per year. About $2,600

Maine's work builds on a first-of-its-kind study released earlier this year by the Foundation for Government Accountability, which found similar reforms in Kansas — more employment, higher incomes, and less poverty.

Maine's Reform Story Will Only Get Better With More Data

And Maine's welfare reform success story will only get better. This preliminary analysis only includes wages earned in Maine that are subject to the state's

unemployment insurance reporting rules. That means it doesn't account for income from most self-employed workers, small farms, members of the military, student workers, and many others who work as independent contractors. It also excludes individuals who found work in other states, including neighboring Massachusetts and New Hampshire. When state officials update this analysis with additional data from the IRS or the Maine Department of Administrative and Financial Services, the success story will only improve.

But the evidence is already in: common-sense welfare work requirements are moving able-bodied adults back into the labor force, increasing incomes, and reducing dependency. States like Maine and Kansas are already leading a second wave of welfare reform. As more states begin to implement similar reforms, more and more success stories will rise to the surface. Congress should learn from these successes and give states better tools to re-emphasize work across the board — not just in food stamps, but in all welfare programs.

Mr. PALMER. Thank you, sir.

Chairman WOMACK. I thank the gentleman. Let's go to Washington, Ms. Jayapal.

Ms. JAYAPAL. Thank you, Mr. Chairman. Thank you, Director, for being with us. Director, I am calling this the "Three Strikes, You Are Out" budget, and it is the American people and working people who are rounding the bases and they are being called out by this President and this administration. And I just want to walk through those strikes.

Strike one was when you transferred $1.3 trillion from working people to the wealthiest in this country and the wealthiest corporations, and strike two, I will give this to you in this budget. You admit that that was a tax scam, that you do not have the growth to pay for those tax cuts to the wealthiest, and you are now going to saddle this generation and future generations with $1 trillion in debt, $1 trillion in this next year, $7 trillion over the next 10 years.

And then, strike three is cut all the programs that people actually rely on to have a decent life, and some of these have been called out, but I have to say it again: Temporary Assistance for Needy Families cut by $1.7 billion in this budget; economic opportunity programs cutting half a billion from rural and wastewater programs; cutting job training programs for workers across the country; Economic Development Agency that invested millions in coal communities that Donald Trump said he was going to save; and programs that help struggling manufacturers.

But I also want to talk about SNAP, because my good friend from Alabama just mentioned Kansas and Maine, and I want to tell you what actually happened in Kansas and Maine. A year after instituting work requirements in Kansas, 40 percent of unemployed were still unemployed, and the SNAP participants who lost their benefits had an average annual income of $5,562. I would hardly say that that was a success.

Here is what happened in Maine. Eighty percent reduction immediately, that is true, but a year later 60 percent still did not have any income, and as Secretary Purdue himself said, "SNAP is a," and these are his words, a "very important, effective program."

Let's talk about Medicaid for a second. $1.4 trillion cut to Medicaid, and I think this administration would like people to think that Medicaid is somehow just benefitting the poor, lazy, black, brown. Who knows what you are thinking? But 11 million adults with disabilities, 70 percent of those folks get their coverage through Medicaid. You look at the number of long-stay nursing home residents. Sixty percent of those residents get their coverage through Medicaid. So I do not know how you can call this a moral budget in any way, shape, or form, Mr. Director.

And I want to talk about two specific things that are separate from everything I just mentioned. Yesterday when you came to visit us, and thank you for doing that, I asked you about DACA and what assumptions you have made in this budget around DACA. And I believe you told me that you have assumed that the DACA recipients get to stay, that there is some permanent solution for DACA.

Mr. MULVANEY. What I have said, that is mostly correct. What I said was that we assume that an agreement is reached on immigration, on DACA, between Republicans and Democrats, I was very disappointed to see that Democrats in the Senate did not allow the debate to go forward yesterday after demanding that they do for such a long time.

Ms. JAYAPAL. Thank you, Director Mulvaney, but let me——

Mr. MULVANEY. We do assume that there is an agreement.

Ms. JAYAPAL. I am sorry. This is my time.

Mr. MULVANEY. Yep.

Ms. JAYAPAL. Let me just point out that the President rescinded DACA and put 800,000 Dreamers at risk of being deported and the economic impact of that, estimates are that 280 to $430 billion in either a cut to our GDP or an increase to our GDP, so what happens if this Republican-led legislature in the Senate and the House—Paul Ryan has not committed to bring a real DACA bill to the floor that would pass—what happens if DACA is rescinded?

Mr. MULVANEY. A couple different things. I would suggest to you that it was the law that rescinded DACA and not the President.

Ms. JAYAPAL. That is not the answer to my question. So reclaiming my time to answer the question. Thank you.

Mr. MULVANEY. I am sorry. Your question was what?

Ms. JAYAPAL. Well, I actually think I just answered my own question, so I will let you pass that. Let me ask you about whether you know what the suspense earnings fund is.

Mr. MULVANEY. The suspense earnings fund. No, ma'am, I do not know that one off the top of my head.

Ms. JAYAPAL. Well, that is a fund that basically is earnings that are contributed to Social Security, where the names of the people and the earnings and the Social Security numbers do not match. There is about $1.2 trillion in that fund as of 2012. That is about $200 billion contributed to Social Security by undocumented immigrants into the Social Security that is paying for older Americans today. So if you assume increases in enforcement as you have done in your budget, have you accounted for the decreases to the economy and to the Social Security fund if that were to pass?

Chairman WOMACK. The gentleman will have to take that one for the record. Gentleman from Ohio, Mr. Renacci.

Mr. RENACCI. Thank you, Mr. Chairman. I want to thank you, Director Mulvaney, for being here today and for all your hard work on putting together this budget. While I may not agree with every policy decision made in the budget, I am encouraged that the President remains committed to reducing our national debt and deficit.

And again, this will be my last time in a Budget Committee hearing where we are talking about a budget. It is interesting, because Mr. Carbajal and I this morning had a bipartisan breakfast where we talked about how we have got to get politics out of the way. And the frustrating thing about the Budget Committee is we get into politics versus into substance too often.

But I was taking some notes. One of the things you said, it is easier to spend than to cut. Yes, it is. God help our children and grandchildren. Too often we worry about the next election and not the next generation, which is a problem with the politics many times that show up in this Committee.

You also said something that was interesting. Both parties have taken credit for balancing the budget in the 1990s. Neither party should take credit for balancing the budget in the 1990s. If you go back to those years you will find out that there were $2 trillion budgeted and 4 trillion spent. We could not even control our spending back there and thank goodness we had something called the tech bump, which grew our economy by over 5 percent for most of those years, which gave us the ability to balance the budget. Otherwise no Democrat or no Republican could ever take credit for that balanced budget.

The last thing I want to bring up, and I was listening and I apologize. I had run down to a Ways and Means hearing. I heard one of my colleagues on the other side say that this budget will destroy people's lives. Let me explain something. As the Comptroller General said, a Democrat, a Comptroller General who sat in that same seat last year, said we are heading for an unsustainable situation. And that is what will destroy people's lives.

So, as this budget reflects, I believe that we need to take a serious look at the non-defense discretionary programs we currently fund and where we can cut out disputative and unnecessary spending. However, I also understand and I know you understand that the drivers of our drivers of our long-term debt and deficit today are the mandatory spending.

Seventy percent of Federal spending today is as we—and 70 percent of mandatory spending in the next 20 years, that percentage will increase to 80 percent is mandatory spending.

So Director Mulvaney, by the way, I give you and the President credit that you have included 1.7 trillion in mandatory cuts, but do you believe it does enough in the mandatory spending to correct the mandatory spending problem?

Mr. MULVANEY. Well again, I think it preserves the President's promises. We have talked about this last year and talked about the process we went through with the President to write the budget. That I gave the President certain options within Medicare, within Social Security, that Congressman Mulvaney probably would have supported. The President said, "Now wait a second. Now I promised people I would not change retirement. I promised people I would not means test. I promised people I would not change their benefits in Medicare."

So what we have done is to try and show you in this budget you can still have dramatic savings in mandatory spending—$1.7 trillion in a 10-year window—and not touch those programs. So I think that we have at least given you some ideas of things that you can do short of that if you do not want to do that as well.

Mr. RENACCI. Thank you. And you would probably also agree, and that is why I want to go back to the tax cut and jobs act. As someone who has spent most of my career in the business world creating jobs and looking for opportunities to expand my business, I believe that bill will help the economy grow. I know you have projected 3 percent growth. I actually believe it will be higher than 3 percent in the early years as this tax bill starts to roll in. I am not an economist who can judge whether it will stay at 3 percent, but I know we have used 3 percent.

But just going back to what I talked about in the 90s. We balanced our budget by having 5 and 6 percent growth, not cutting spending, and where do you see us in the near term and the long term with your thoughts on that?

Mr. MULVANEY. We continue to think the numbers that we put forth in the budget are defensible and actually towards the conservative side. As evidence of that I would suggest that, I would point to the Atlanta Federal Reserve that just tends to or is in the practice now of projecting the next quarter's GDP, and I think the number they put forth last week or 2 weeks ago was a projection of 5.4 percent for the first quarter of this year.

To Governor Sanford's point, there will be declines over the course of a 10-year window, most normal 10-year windows, but we also expect there to be times above 3 percent. These numbers that we put in the budget are averages and they are extraordinarily defensible, and we have the policies critically to back them up and to get us there.

Mr. RENACCI. Well, thank you, and like many of my colleagues, including you, we were elected in 2010 with a mandate to reduce government spending and ensure that our children and grandchildren are not held with this debt crisis. Right now we are quite simply on an unsustainable path. I appreciate what you are doing and thank you, and I yield back.

Chairman WOMACK. Thank the gentleman. Mr. Carbajal from California.

Mr. CARBAJAL. Thank you very much. Thank you, Mr. Mulvaney, for being here today and thank you, Mr. Renacci, for touching on those bipartisan discussions we try to have to see if we can find common ground, which oftentimes eludes us.

Mr. Mulvaney, I am incredibly troubled by this budget. Budget cuts to domestic programs. Just to name a few: this budget calls for a 10.5 percent cut to the Department of Education, including eliminating the subsidized student loan program and the public service loan forgiveness program; a 34-percent cut to the Environmental Protection Agency, which is yet another attempt to undermine environmental safeguards; a $1.4 trillion and actually more than $2 trillion, if you include Medicare, cut to Medicaid over the next 10 years; a $214 billion cut to SNAP over 10 years, including the new food box proposal that takes choices away from households to buy groceries that they need.

This budget pretends to make infrastructure a priority by highlighting the President's 200 billion infrastructure proposal with one hand while taking away infrastructure funding with the other hand. The budget assumes a 122 billion cut in highway programs after the expiration of the current highway bill. It also cuts discretionary transportation accounts, including reductions in Amtrak and the elimination of TIGER grants and cuts the capital investment grants program.

Director Mulvaney, can you explain to me how the budget incorporates the President's new $200 billion infrastructure proposal. Would the infrastructure plan actually lead to a net increase in Federal investment in transportation infrastructure?

Mr. MULVANEY. It would, and I am discouraged to hear you reference Mr. Schumer's numbers, because they are just flat-out wrong, which is unfortunate that he has chosen to demagogue the issue. But if you look at Mr. Schumer's numbers, what he is assuming is a $122-billion cut because of the highway trust fund. The highway trust fund is $122 billion short. We all know it and unless you all make a separate appropriations for it, that money is not going to get spent anyway. So it is one of those classic examples, Mr. Carbajal, where we compare something to a baseline that everybody knows is not right. It is one of the ways that Washington counts that is different from the way the rest of the world counts.

He takes, I think, into consideration a reduction in the CDBG program, which might be infrastructure and might not. So really it is demagoguing an issue instead of talking about ways to actually pass an infrastructure bill that works. My concern is that Mr. Schumer is heavily invested in simply seeing the President fail as opposed to talking about the issues that are important to people back home.

Mr. CARBAJAL. Mr. Mulvaney, help me understand—if the TIGER grants go away—this is a priority of mine. Both Santa Barbara and San Luis Obispo counties in my district have applied for TIGER grants to widen the U.S. 101 corridor, which is a critical link for the regional movement of goods, and to widen highway 46, another critical economic connector, which recently served as an alternative route when the disaster hit and mudslides shut down the 101. Without TIGER grants, where do you suggest communities like mine pursue funds for this type of infrastructure?

Mr. MULVANEY. Through the new infrastructure program that we are proposing. If TIGER grants were the answer, Mr. Carbajal, we would not have this problem in the first place. If just throwing money at the problem was the answer, then the stimulus 10 years ago would have solved the problem.

Clearly, what we have been doing in the past, which includes TIGER grants, does not work. It is one of the reasons we have the crumbling infrastructure that we have. I give tremendous credit to the President for at least coming up with new ideas on how to fix the problem. Because, again, if we simply do the same thing we have always done, we are going to get the same results we have already gotten.

Mr. CARBAJAL. Mr. Mulvaney, but we are actually inverting the formula that the Federal Government has always utilized to help local communities. That is, they used to do 80 percent funding and allow local communities to come up with 20 percent. Now we are saying you come up with 80 percent and we will come up with only 20 percent. How is that helping?

Mr. MULVANEY. Because we also found that when we increase Federal spending on infrastructure, as we did during the Obama stimulus, all it did was displace state funding. No additional roads actually got built. What happened, was states took money they were going to spend on building roads and bridges and other infrastructure, and moved it to other priorities, and the Federal money displaced that so that nothing additional got built.

Mr. CARBAJAL. Well, we will agree to disagree on how that impacted local communities. I was in local government and I will tell you we saw the benefits of those investments, which is not the case with what is being proposed here.

Mr. MULVANEY. Thank you, sir.

Chairman WOMACK. Gentleman yields back. Gentleman from Ohio, Mr. Johnson is recognized for five minutes.

Mr. JOHNSON. I thank you, Mr. Chairman and Director Mulvaney, thanks for being with us today. I still need my baseball pants back, by the way. That is an inside joke.

Mr. MULVANEY. He lent me a pair of part of my baseball uniform a couple of years. I want to point out that it was much too large.

Chairman WOMACK. That will be stricken from the record.

Mr. JOHNSON. Well, thank you, Director Mulvaney. I am optimistic, and I am glad to see that you and the President, the administration is looking at the other side of the ledger sheet—cost and controlling spending as we move forward. And I think his budget reflects it.

Now, I do have some questions about the budget, but last May when you came before this Committee to President Trump's fiscal year 2018 budget I expressed to you at that time—we had a private conversation about the fact that the funding for the Appalachian Regional Commission had been zeroed out based on a dated study.

This year, however, I am very quite pleased that the administration's budget has maintained level funding for ARC at 152 million. This funding is so critically important for reinvestment and development of the Appalachian region, including eastern and southeastern Ohio, where I live, and to ensure that Appalachia does not continue to get left behind. I know the President is very concerned about that area of the country.

I am also pleased that the administration has taken seriously the opioid epidemic. As President Trump declared last August, this is a national emergency and one that is hitting eastern and southeastern Ohio particularly hard. Addiction does not discriminate by age, race, social status, economic status, or political party. Solving the problem is going to take communities, families, local elected officials, churches, faith-based organizations, and elected officials from the President all the way down to the lowest level. It is going to be an American solution. We are all going to have to be vested in the fight. And I am pleased to see that the President's budgeting includes approximately 20 billion to combat the opioid crisis.

So here is my question. Specifically, can you give us an idea what the administration is doing to combat the opioid crisis and can you expand on how the administration intends to use these funds and how it will coordinate between the agencies and the departments to ensure that these funds are used most efficiently?

Mr. MULVANEY. Thank you, Congressman. It gives me an opportunity to let everybody know, if they have not heard already, that I believe we have named a Director of the Office of National Drug Control Policy, which is going to be extraordinarily helpful.

If you look at the line items in the budget, Congressman, you will see a dramatic reduction in the ONDCP budget. That, however, is a result of simply moving the grant programs that were managed out of the White House over to, I believe it is HHS and DOJ. So while it appears on a piece of paper as a reduction, actually it is simply a movement from one section to another.

We have $3 billion, I think, in the 2018 budget; $10 billion in the 2019 budget for opioids. And then, a bunch of other money in other places to bring up that number close to 20 billion that you have mentioned. The various things the President has talked about is a national advertising campaign similar to what we were able to do to simply discourage people from using it. There are some very powerful tools we have there.

One of the most interesting things is the work Congressman Cole mentioned earlier. The NIH, we have tasked the NIH with trying to come up with a non-addictive painkilling replacement for opioids. So there are a bunch of different initiatives and, obviously, with $20 billion you can do a bunch of different things.

But I think no one can, I think, doubt the President's commitment to this, not in terms just of money because money is not always the best measure of whether or not we are committed to something. But the commitment of energy and time and attention, I think, is encouraging.

Mr. JOHNSON. I would agree. This is, the opioid epidemic is not something that we are going to be able to spend our way out of, arrest, or incarcerate our way out of. It is a big problem. Shifting gears just a little bit, the President requests 647 billion in base Defense discretionary spending in fiscal 2019. I think I know the answer but I want to give you a chance to respond. Why is funding of that magnitude necessary?

Mr. MULVANEY. I would defer for the details to Secretary Mattis, because I only have 10 seconds left but the long and the short of it is that to deal with some of the new threats, including North Korea, we needed a considerable up fit to some of our capabilities and also to undo some of the decay that was experienced over the last several years.

Mr. JOHNSON. Okay. Thank you. Chairman, I yield back, and you can keep the baseball pants.

Chairman WOMACK. Thank the gentleman. The gentleman's time has expired. Ms. Jackson Lee—where are we? Mr. Jeffries, you are recognized for 5 minutes.

Mr. JEFFRIES. Thank you, Mr. Chair, and thank you, Mr. Director, for your presence here today. I was confused by a statement that you made in November, so hopefully you can clarify it for me. You stated in defense of the tax bill's obliteration of the state and local tax deduction that "it is simply not fair, it is not right, that the folks who live in low-tax jurisdictions are actually subsidizing the folks that live in high-tax jurisdictions." Did you make that statement?

Mr. MULVANEY. Yes, sir. Several times.

Mr. JEFFRIES. Now, there are two types of states in this country: donor states and taker states. Is that correct?

Mr. MULVANEY. There are, but that deals with the receipts from the government, not the pays in.

Mr. JEFFRIES. Okay. So a donor state, like New York, New Jersey, or Connecticut regularly send more money to the Federal Government than we get back in return. Is that correct?

Mr. MULVANEY. I believe that to be true. Yes, sir.

Mr. JEFFRIES. Okay. So, I do not understand how there can be any other distinction as it relates to Washington-speak that you have previously descried, when you talk about high-tax jurisdictions like New York, New Jersey, and Connecticut subsidizing the Federal Government. We actually receive less regularly from the

Federal Government than we get back in return. In fact, New York, a high-tax state, generates 9.4 percent of the Federal Government's income tax receipts. We receive only 5.9 percent of Federal spending allocated to States.

Similarly, as I think you are familiar with, a real taker state—states like North Dakota, South Carolina, Alabama, Kentucky, West Virginia, Indiana—get more than $2 back in Federal spending for every dollar they send to the Federal Government in taxes. Is not that the real donor state/taker state dichotomy?

Mr. MULVANEY. The distinction, Congressman, is that you are looking at it at a state-wide basis, and I am looking at it at an individual basis. My comment was and remains that if you and I live in two different states but make the exact same amount of money and you lived in a higher-tax state and I lived in a lower-tax state, you were actually paying less Federal tax than I was, which we did not think was fair. And it did act as a subsidy, where I was paying more so that you could pay less.

Mr. JEFFRIES. Okay. That strikes me as sort of the Washington-speak that you have consistently descried, but I will take your answer as one rendered in good faith. In 2011 you called President Obama's fiscal year 2012 budget a joke. Correct?

Mr. MULVANEY. I do not remember that, but that sounds like something I would say.

Mr. JEFFRIES. Okay. And that budget, you indicated it is hard to explain from detached from reality this is to think that the country can spend another $1.6 trillion when it does not have the means. Do you recall making that statement?

Mr. MULVANEY. Again, not specifically but I absolutely believe I said something like that.

Mr. JEFFRIES. Okay. And then back in 2011 you told attendees at a town hall in Sun City Carolina Lakes development——

Mr. MULVANEY. Wonderful place.

Mr. JEFFRIES. "I am sure that the country's debt is much worse than I ever thought. Allowing this figure to increase compromises U.S. foreign policy." Do you recall making that statement?

Mr. MULVANEY. Again, no, but I absolutely believe that I made it.

Mr. JEFFRIES. Okay. And then, in April of 2011 you said, when asked whether you would vote to raise the debt limit, which some had called Armageddon, you said, "It is no more Armageddon and no more catastrophic than what we are doing right now, spending $1.5 trillion that we do not have every year." You recall making that statement?

Mr. MULVANEY. That one I actually do remember, yes.

Mr. JEFFRIES. Okay. And then in 2015 during another debt-ceiling standoff, you stated—this is a great one—"If reconciliation is used to try and raise the debt ceiling there may well be blood on the floor of the House Chamber." Do you recall making that statement?

Mr. MULVANEY. No, but that is a really good one. I like that one.

Mr. JEFFRIES. I agree. Now, you voted against raising the debt ceiling in October of 2015. Correct?

Mr. MULVANEY. I do not recall but I voted against debt ceilings several times. I voted to raise the debt ceiling a couple of times as well, but I do remember voting against the debt ceiling more than once. Yes, sir.

Mr. JEFFRIES. And in May of 2017 before this Committee, when asked by Representative Barbara Lee about the cut to food assistance to the poor, you responded that we should be focusing on the standard of living of your unborn grandchildren. Is that correct?

Mr. MULVANEY. Again, I do not remember that, but that is consistent with what I believe. Yes, sir.

Mr. JEFFRIES. Okay. Now, the debt, which you once descried, was previously $14 trillion. It is now in excess of $20 trillion. Is that correct?

Mr. MULVANEY. Yes, sir. I believe the total debt is 20 trillion. I think the debt held by the public is about 16 and change.

Mr. JEFFRIES. Okay. What confuses me, in the time that I have remaining, is the absence of real intellectual consistency here. Not doubting your good faith, but you take one set of positions as a Member of Congress and then come forward with an administration supporting a bill that saddles our children and grandchildren with more than $1.5 trillion in additional debt simply to pay for tax cuts for millionaires, billionaires, big donors to the Republican Party, and special interest corporations, and then triple down on that by presenting a budget that would increase the debt by $7 trillion.

I think that, unfortunately, is a shameful abdication of the fiscal responsibility that I always believed the Republican Party stood for in this Nation. I yield back.

Chairman WOMACK. Thank you, sir. Gentleman yields back. Mr. Lewis, gentleman from Minnesota is recognized for five minutes.

Mr. LEWIS. Director Mulvaney, thanks for coming today. I think I only have one quote of yours going back a couple of days I am going to use. So, you will be relieved to hear that, probably.

Mr. MULVANEY. Remember.

Mr. LEWIS. And I do want to talk about intellectual honesty in a moment, and I will get to that. But first I am not going to sit up here and defend the spending in this budget. But then again I will not defend the spending in a number of congressional budgets either. The fact is, last Sunday you made the salient point that you had hoped the Democrats would come along on the defense side, but without giving us additional money for welfare spending. But they refused and that is just the world we live in.

And I think that is absolutely true. In fact, I do not think it is possible in this world to plus-up defense from $549 billion to $716 and say we will just zero out social programs. That is not going to pass anybody, let alone the United States Senate.

So, instead of a shared sacrifice being everybody tightens their belt across the Federal budget, we get these stair steps. You fund mine, I will fund yours. Except in the budget you have got discretionary spending in the President's budget request taking defense up all the way but social spending goes from about $591 with the BBA all the way down to under $400 billion in 2028. How is that not possible now but it is going to be possible over 10 years?

Mr. MULVANEY. Keep in mind that in 2018 we do spend up to the caps, as I have mentioned before, and in 2019 we do not. Those are the two budgets that are sort of in front of you right now. Once we start talking about 2020, that is the vision for the future. It is not next year's budget. It is the vision for the future.

And what we are saying is look, there is a way to get off of this trillion-dollar trolley, right? Off of this carousel of trillion-dollar deficits, and one of the ways that you could do it is to look at what the President would call the two-penny plan, which is to reduce these programs over the course of time. We do not put any specifics behind it because these are the out years. This is how budgets work, right? So we have details for 2018 and 2019 and then policies, general ideas going forward. And that is what we do: offer one way to get off of that trillion-dollar deficit.

Mr. LEWIS. I just think, Director, it's going to be a challenge and I do think we have to sort of get religion on the Budget Committee, get it in Congress, that real fiscal restraint means restraint across the budget. This sort of red versus blue tribalism is not working and we end up with a sort of a scratch your back, you fund mine, I will fund yours. And they are all Federal programs and they all can take some belt-tightening.

I do want to spend the rest of the time talking about intellectual honesty and two kinds of deficits. You will see on the screen a President a few decades ago said, "Our true choice is not between tax reduction, on the one hand, and the avoidance of large Federal deficits on the other. It is increasingly clear that no matter what party is in power, so long as our national security needs keep rising, an economy hampered by restrictive tax rates will never produce enough revenues to balance the budget."

I repeat, "Our practical choice is not between the tax-cut deficit and a budgetary surplus. It is between two kinds of deficits. A chronic deficit of inertia has the unwanted result of inadequate revenues in a restrictive economy, or a temporary deficit of transition resulting from a tax cut designed to boost the economy, increase tax revenues, and achieve, I believe, and I believe it can be done, a budget surplus. The first type of deficit is a sign of waste and weakness. The second reflects an investment in the future."

Now, if some of our colleagues were really concerned about intellectual honesty, they would have to disavow John F. Kennedy's speech to the Economic Club of New York in 1962 because the former President made a specific distinction between a deficit that is caused by increased spending, which comes out of the capital market and a deficit caused by tax reduction designed to boost the economy but does not increase—let me put it to you this way real quick. Would you rather have a balanced budget of $4.4 trillion by raising taxes or a budge out of balance of 1 trillion? What is going to be more deleterious to the economy?

Mr. MULVANEY. I would rather have the latter.

Mr. LEWIS. So there is a difference between these two kinds of deficits, and I hear the other side constantly say, "Oh, gosh, the tax cut scam bill. Raise the deficit." You do not care about deficits. It does not matter whether you tax, borrow, or inflate. It is the amount of spending that comes out of the capital markets. Is not that true, Director?

Mr. MULVANEY. And the type of spending the government does, recognizing that letting people keep more of their own money is not spending. It is the most efficient allocation of capital that we can have.

Mr. LEWIS. It is the most efficient allocation, because the productivity increases. So, I just want to make certain we understand that we could "balance the budget by raising taxes." But you are still crowding out the capital markets if disposable personal income is basically the amount of money you earn minus the taxes you pay. That is disposable income. Consumption can stay the same. But if you raise taxes, what happens? Actual disposable income goes down, so that is crowding out.

Mr. MULVANEY. Spending is the crowding out. There is no question.

Mr. LEWIS. So, I would just encourage everyone if you really want to keep your eye on the prize, it is a problem, no question, interest on the debt. But it is not necessarily all the time how we finance government. It is how much government we choose to finance. I will yield back.

Mr. MULVANEY. Am I the only one who feels like I am on a radio program right now?

Chairman WOMACK. That was cheap.

Mr. MULVANEY. It is not cheap. I enjoyed the show.

Chairman WOMACK. Gentleman yields back. Ms. Jackson Lee is recognized for 5 minutes.

Ms. JACKSON LEE. Mr. Director, it is good to see you again. I thank the Chairman and the Ranking Member for this time and the time is obviously short. There have been a lot of quotes drawn by some of your statements, Mr. Mulvaney. I am going to quote one of my predecessors of many years ago. When the Honorable Barbara Jordan sat on the Judiciary Committee during the impeachment hearings of President Richard Milhous Nixon, and she said that she was not going to allow the Constitution to be diminished.

And what I would say to you, with all due respect, that I am not going to allow the American people to be debased and to have them publicly excoriated by a morally bankrupt budget. This is not a personal statement because you were so kind to tell us that a budget is a statement of policy and beliefs of the particular administration that offers it. So, I think it is important to allow just a quick rundown.

Your budget zeroes out the Federal Work Study Program. It zeroes out community service's block grant. It zeroes out LIHEAP, that helps for those seniors and others who need support for heat in the winter and air conditioning in the summer. It zeroes out the community development block grant that so many urban and rural areas are dependent on. I think it zeroes out the rule of development under agriculture that my own small cities depend on. It zeroes out the senior community service program.

It zeroes out a very important asset of the United States, which is the National Aeronautics and Space Administration, their science missions. It zeroes it out. It zeroes out the TIGER grants. It eviscerates the Legal Services Corporation. It eviscerates the arts. And this is a poor statement on what America is about and how the American people voted.

I do not believe they voted for the President to destroy the very fabric of this Nation. So, let me raise the question: I believe you have a policy to eliminate Federal workers. Right now as relates to the Bureau of Prison, which comes under the Department of Justice, of which I sit on the Judiciary Committee.

They are looking to cut 6,000 jobs nationwide; in my own community 37 jobs. They have preemptively cut these jobs. You are killing Federal workers. You are now causing Federal workers to vet prisoners to send out to private prisons. Private prisons do not allow FOIA requests to know what they are doing. Disturbance control is now done by our Federal employees dispatched out to private prisons, because they are not capable of putting down disruptions.

So, I will be asking a question along these lines: Violence against Women Act or violence or domestic abuse has been a major issue over the last couple of days. We have found that to be a problem in your own White House. The inability to speak against it; the inability to denounce it. But yet your budget does not have a separate line item for violence against women. You have put it in the victim's fund that does have about $13 billion.

You are taking out a sizeable amount for this and many other things, and therefore, what you are saying is America's tax dollars do not believe in fighting against domestic violence. Because you have thrown it into a fund that really, the victims of crime across America should be aware that they can be able to apply for the victim's fund, but you are throwing the domestic violence in that.

Would you answer the question about getting rid of Federal employees and the insignificance of the violence against women funding so much so that it is thrown into a pot of money that should be for those victims of other crimes?

Mr. MULVANEY. I would be happy to. Thank you for that, Congresswoman, and I appreciate your perspective on that. We just respectfully disagree. We moved the VOWA program into that fund because we thought it was the absolute best place to guarantee the flow of funds. There is a tremendous amount of money there. We are actually fully funding VOWA. I think it is a tremendous commitment by the administration to do exactly that. We may disagree, ma'am, over the source of the funds, but not over the use of the funds. You and I would both agree that that program needs to be fully funded, and we do exactly that.

Ms. JACKSON LEE. Would you comment about getting rid of Federal employees across America?

Mr. MULVANEY. I cannot speak to the prison program in particular. I apologize. I do know that we have proposed reductions in force at places like the EPA as a result of our reductions there. But I cannot speak to the Federal program.

Ms. JACKSON LEE. May I reclaim my time with only the few seconds I have. As I indicated as I started, I believe this is morally bankrupt. I believe we can do a better job. And I believe that we are not here to crush the American people and to deny them the very sources of Medicare, Social Security, and basic living standards. With that I yield back. I thank you, Mr. Director.

Mr. ROKITA. [Presiding.] Gentlewoman's time has expired. Mr. Smucker from Pennsylvania, you are recognized for 5 minutes.

Mr. SMUCKER. Thank you, Mr. Chairman, and good afternoon, Director. There has been a lot of discussion around the debt and the deficit. I share the concerns that have been discussed but on both sides of the aisle; I think it is a threat to our economic future and to our country if we are not able to get it under control.

I would like to thank the administration, thank the President, for taking what I think is a very important first step and that is generating strong economic growth. I believe that we cannot at 1.9 percent growth get this under control, and so the regulatory relief the tax reform that the President has shown the leadership in really is the first step needed to solve the deficit.

I am disappointed that the budget does not balance, as you have testified, within a 10-year period, but I understand you are saying that you expect annual deficits to decrease. Could you expand on that and further, do you think we are, if not within 10 years, are we putting, with this budget, ourselves on a path of balancing the budget within a certain period of time. And if so, how long will that take?

Mr. MULVANEY. Sure. The projections right now, keep in mind, these projections may change a little bit, ladies and gentlemen, simply because we have not had a chance to fully digest the caps deal. These are bits and pieces. The example I give is, there is a 2-year extension to the mandatory sequester that we have to factor in, I think, but these numbers should roughly stay the same, which is that we are looking at $948 billion in deficits this year. That goes down to $448 in 2028.

Keep in mind, a big piece of that in the out years is—we have not raised this yet, Mr. Smucker—our assumption that the reduction in individual tax rates that phase out under the tax bill are actually made permanent. So, if you actually ran this against the tax law itself verbatim, the numbers would actually be smaller. But we always thought it was a fair point to make the case that we thought that was good policy. The only reason it was not permanent in the first place was to deal with the reconciliation rules in the Senate, so the budget assumes something that actually goes beyond what the tax bill does. But we sort of trend down.

You have heard me say earlier that that gets the deficit down around 1, I think 1.1 percent of GDP in the last year.

To your larger question, outside the budget window we went back and forth in this sort of philosophically within the office. I did not want to go any further than that. I think that coming to you and saying oh, do not worry. The budget balances in 17 years or 27 years or 37 years. I thought that undermined the credibility of the numbers. I thought it was much more difficult for the administration to come in and admit that it was not going to balance, but I think it is a lot more honest and transparent and accountable to do exactly that, which is why we did it.

Mr. SMUCKER. I would love to follow up on that but I have an additional question I would like to ask you.

Mr. MULVANEY. And I will try and give shorter answers. I apologize.

Mr. SMUCKER. After serving on the Budget Committee for one year, in the past year one of the biggest takeaways is how broken the process is. And that is certainly, it is recognized by probably everyone in this room. It is very difficult to even argue that the Federal budget process is working when in the past 20 years we have had more than 100 CRs, an average of five per year. And under the current budget process, there have been 19 government shutdowns. It is just simply unacceptable.

I have seen the difference in—this is Pennsylvania State Senate—I have seen the difference in the process there from here. Very decentralized, not a lot of accountability in the process. Do you believe that there needs to be greater coordination between Federal agencies, such as OMB and Congress throughout the current budget process to ensure more fiscal responsibility?

Mr. MULVANEY. I would welcome that. In fact, I would have been pleasantly surprised to hear some of my Democrat folks, especially commend me and my staff for being much more available than in previous administrations of both parties, so we have looked forward to doing that, continuing that.

I would suggest to you, however, that really the hurdle right now to the appropriations process functioning is not OMB and it is not the House. It is the Senate. And until they figure out a way to either work together or figure out a way to change the rules to allow them to pass bills with a majority and not a super-majority, it is unlikely that we will see an end to the current budget impasses that we have.

Mr. SMUCKER. Yes. I believe there are other changes that we could make in the process to drive additional accountability. In fact, a few weeks ago I introduced a bill that would create a joint commission on budget process. And this is modeled after something we did in Pennsylvania, where we had a similar difficult problem there for decades and created a sort of inside commission with appointed members from the House and in that case, the Senate, and the administration. And my idea would be to do that here as well. We would include folks from the administration—potentially yourself.

I just wanted to get your thoughts on that. Do you believe that the administration should be involved in efforts by Congress to reform the Federal budget process?

Mr. MULVANEY. We would absolutely welcome it. In fact, I encourage you to reach out to your counterpart, Mr. Enzi in the Senate. He is one of the leading voices over there on budget process reform. Also Senator Daines, a former member of this body. Very interested in trying to figure out a way to reform the system so that it works and we can spend money appropriately.

Mr. SMUCKER. I think it is a bipartisan issue. It is one that we should all look to, to try to solve. So thank you. I look forward to continued discussions on that.

Mr. ROKITA. Gentleman yields back. Gentleman from California, Mr. Khanna is recognized for 5 minutes.

Mr. KHANNA. Thank you, Mr. Chairman. Thank you, Director Mulvaney. I want to associate myself with my colleague's comments of concern about the cuts and so many social programs. It is why I oppose this budget. Given that I am the last person to ask questions, I do not want to cover ground that has already been covered. And so, I want to bring up two different issues.

First, in the interest of proving that Democrats can say something nice when we do agree with a policy perspective, I want to commend you for supporting the Will Hurd/Robin Kelly bill on modernizing government technology. It is $210 million to help make the government better with the internet and technology, and I think that is common sense. I really hope the Appropriations Committee will fund that bipartisan effort and I appreciate that being part of the budget.

My question is a more philosophical question, because I do not think there is a person on this Committee who does not believe or does not want America to succeed and outstrip China and be the dominant economy in the 21st century. I read a report a few days ago by Bain. You cannot accuse Bain of being like the New York Times or CNN or biased. I mean, you know, Mitt Romney worked there.

And here is what Bain's report said. Bain's report said, basically, we are going through a technology revolution similar to the industrial revolution. The industrial revolution took 40 years. The transition from manufacturing to services took 20 years. This technology revolution is probably going to take 10 years. It is going to displace potentially 20 percent of workers. And they said that the biggest challenge to America's economic growth is actually income inequality, because there may not be enough people with money to buy things.

Now, we know China has their problem. China does not care about the consumer welfare of their individuals. It is all an export-driven economy. The success of our country has been a strong middle class that buys things. Not just from a perspective of fairness. From an actual perspective of economic growth and making sure we outstrip China in the 21st century.

So, I guess my question is just, is simple and it is really not partisan, but do you see the world from a similar lens, that we have to tackle income inequality and care about the growth of the middle class if we care about America's success?

Mr. MULVANEY. I will surprise you and say that we do, and I think many of my party do. I think one of the places philosophically where we start to vary is how to remedy this situation. There are many folks in your party, writ large, who would say well, the way to solve that gap is to have government get involved to redistribute wealth. Folks on this side of the aisle would say no.

The best way to do it is to allow folks to lift themselves up out of poverty to close the gap. I have always contended that people really do not care much about how much other people make. They care a lot more about how much they make. It is not income inequality that I care about as much as it is my own income.

And if I feel like I am able to provide for my family, I am able to provide my children with what I want to give them, that I am happy. I do not care that you make 10 times or 100 times what I do.

I would point out on the Bain thing—I have not seen that but I have seen similar reports. I would encourage you to, and again, I know it was a philosophical question. I will draw it back to the budget very quickly. Displacement does not always mean unemployment. That it never has. When cars displaced the horse and buggy all it did was create new opportunities at higher-paying jobs. That is why it is so critical, obviously, to have education as part of this. I know we have taken some criticisms today from your side of the aisle regarding some of the proposals on education. What has not been mentioned is the doubling of the commitment we make to apprenticeship programs because we have proof that they work.

A classic example is trade adjustment assistance, which the data actually suggests if you go through that Federal program you are worse off than not having gone through it. But if you go through an apprenticeship program you are actually much better off. So, we would move money around in order to fund those types of things. So I would agree philosophically we would look forward to working with you on ways that maybe we can work together to accomplish that same end.

Mr. KHANNA. I appreciate the acknowledgement on income inequality, and I agree with you that new jobs are going to be created. And Bain says that the challenge is, it took 40 years from the transition when we went from agriculture to industrialization. And the question is how long is it going to take for these new jobs and what are we going to do on the transition?

But my hope would be given the recognition in income inequality, maybe there are productive investments, whether it is in technology credentialing, whether it is in public colleges, universities, expanding access to the internet—that people on both sides could come together on to say look, we have got to do this because this is what is going to make America competitive in the 21st century. And I hope sometime in the next year or few years we can actually start working on some of that in a bipartisan basis.

Mr. MULVANEY. Thank you, sir.

Chairman WOMACK. Thank the gentleman. To Wisconsin, Mr. Grothman.

Mr. GROTHMAN. Yes. First of all, thanks for coming over here, Mr. Secretary. We are glad to see you. I will do a follow-up on that last question. I personally believe one of the reasons for the widening income gap is for whatever motivation, there are a lot of programs out there that are designed to make sure that people do not make more money or they lose their benefits.

And there is no question, I think, that the widening gap—both the wealth gap and income gap—is caused maybe intentionally by people who like to keep people dependent and maybe unintentionally, you know, to make sure people do not make more money.

But I notice while I thank you for doing what you can to reduce some of these programs, you did not really touch the housing assistance programs, which I think are sometimes almost as pernicious as the SNAP programs. Is there any reason why you did not, you know, do things on the housing assistance programs, which also discourage people from working or getting married?

Mr. MULVANEY. Actually, I think you will find that we did make some proposals there, Congressman, deep down in the details in the weeds in the budget. But we try to encourage folks to work so that they can pay a larger percentage of their income towards their rent. Those are folks who actually can work. Again, we have taken some criticism that I think is——

Mr. GROTHMAN. And I just mean people of working age who are not disabled.

Mr. MULVANEY. Correct. And that is who it should be.

Mr. GROTHMAN. There is no question those programs right now are like designed to keep the income gap as great as possible.

Mr. MULVANEY. We agree.

Mr. GROTHMAN. Okay. Next question. I voted for the budget last week. A very difficult vote. And sometimes when you take a vote in this business you either have a choice of voting for bad things if you vote yes and worse things if you vote no. But as I get the numbers, there was about a 10.4 percent increase in defense discretionary and 9.4 in non-defense discretionary. And I believe what happened in the negotiation on it was there was the executive branch. I know there was Paul Ryan. I know there was Mitch McConnell. I think in order to go up on one you had to go up on the other as a practical matter.

I wondered if you would be willing to weigh in and say when we reach the final deal, rather than going up 10.4 or 9.4, if say we would go up 8.4 and 6.4. Do you think that would be advantageous for the administration to weigh in on something like that?

Mr. MULVANEY. Well, again, the administration's priority was not in terms of a percentage increase as much as it was a raw dollar increase. I think Secretary Mattis admitted the case to both parties that he thought a funding level of $700 billion this year and $716 next year was what was necessary. So that was, that was our starting point.

Mr. GROTHMAN. I did not mean to cut you off but I only have 5 minutes.

Mr. MULVANEY. No. That is fine.

Mr. GROTHMAN. When you were before us a year ago you were talking about a 5.5 percent increase in defense. Now you thinking a 10.5 percent increase?

Mr. MULVANEY. I do. I do not think we got a lot of the increases last year that we hoped to get, so we had to make up for some lost time.

Mr. GROTHMAN. Okay. Next question. I am afraid in this budget that because you are giving these increases and the agencies, be it Defense or other agencies, have to spend this whole 9 or 10 percent increase in the second half of the year, that these agencies will just be shoveling money out the door because that is the only way they can absorb such a big increase.

Do you have any suggestions you can give our negotiators so that these agencies, some of which will get a 10 percent increase this year compared to last year and only have the final 6 months of the year to spend it, to not spend it wastefully?

Mr. MULVANEY. Keep in mind, they cannot spend all that money in the last 6 months of the year. What will happen, is that the money that they have already spent under the CRs will sort of be taken into consideration. So you do not get to spend $100 if your budget for the year is $150 and you have already spent $75 on a CR; you cannot spend $125.

Mr. GROTHMAN. What I understand is this. Let's say your budget is $10, okay, and you decide to give them a 10 percent increase and now they get $110. Presumably they were going along at $10. In the first six months of the year they spent $5 and all of a sudden the second half you are saying, "Well, you do not have $5. You have $6. So you have a 20 percent increase." See what I am saying? In the final.

Mr. MULVANEY. But the point is they do not have 11 to spend in the second half. It is 5 plus 6, not 5 plus 11.

Mr. GROTHMAN. Okay. I do believe that is a potential problem. You see what I am saying?

Mr. MULVANEY. And we tend to agree. One of the things we are very proud of because of the work the Congress had done and previous administrations had done of both parties, the Defense Department announced they are now ready for an audit and they are going through that process.

Mr. GROTHMAN. Okay. My final question for you: since this kind of a high amount of spending is discretionary, would you be willing to again and again publicly weigh in on it till the Senate agrees to reconciliation instructions to take up some of these welfare-type programs that the public believes is so abused. I know right now Mitch McConnell is not there, but would you guys be willing to strongly push to get in there?

Mr. MULVANEY. Again, the priorities for us this year, Congressman, are the infrastructure, obviously getting a DACA deal, which we are hoping would be debated today and apparently I am not sure if it is or not, and then infrastructure would come after that.

Chairman WOMACK. Mr. Woodall of Georgia.

Mr. WOODALL. Thank you, Mr. Chairman, and thank you, director, for being here. Thank you for your service. I wanted to thank you for the seriousness of the document that you prepared. It makes our job harder, as you recall from your time on this Committee, if you do not get a serious document out of the administration. It would always be easy to come up with some funny numbers and optimistic options and say you got to balance when you did not. So thank you for doing that.

I also want to thank you for your work in the shutdown a few weeks ago. In yet another opportunity you can make those events as painful as possible or you can make them as non-painful as possible for the people that we all represent, and this administration obviously made it as least painful as they could. And I am grateful to you for that.

I wanted to ask you in part of that shutdown context if there were any discussions—you may remember in the Carter administration our great President from the state of Georgia—government shut down six times for more than 60 days during that 48-month presidency. Two of those months were shut down, but prior to Reagan's attorney general, Mr. Civiletti and his decision that you actually had to close the doors and padlock them, shutdowns meant something different. Was there any discussion about what a shutdown means and whether that has to be a painful event for the American people?

Mr. MULVANEY. There was. In fact I got direct instructions from the President to try to make it as painless as possible, to keep as many people at work as possible. To keep as much of the government open as possible. In fact, he and I commented that he was extraordinarily proud that the monuments were open for the folks who were here to protest against him on that Saturday. We thought that sent a message that the President really did care about the importance of managing the shutdown properly.

What we found was that the previous administration probably was not as aggressive as it could have been on using carry-forward funds and the transfer authorities that various agencies have. And that you could make the argument, and I have made the argument that they weaponized that shutdown for political purposes as opposed to trying to make it as painless as possible for both Federal workers and for folks who use Federal services.

Mr. WOODALL. Well, as you have seen demonstrated here today, a lot of these disagreements are thoughtful, representative disagreements about how dollars ought to be spent. When we allow a shutdown to weaponize the policy discussion, I think we end up with less thoughtful decisions at the end. So, thank you for what you did to make that less of an extortive event and if we can do that more going forward, I would be grateful.

My colleague, Mr. Khanna, mentioned that America's success had been a strong middle class that buys things. I happen to disagree. I think it is a strong middle class that dreams things, that produces things, that builds things, and provides things, and I appreciate what the administration has been doing to make the American worker more competitive with what is going on around the globe. We have at least several trade deals going on right now, several tariff conversations going on right now. I am grateful for that.

I see OCO falls in the tail end of the budget window. I remember you and I worked together on some amendments to try to make OCO represent exactly what it was to represent instead of pad the DOD budget. Does that reduction OCO in the out years represent a movement of fundamental defense dollars into defense spending or in anticipation that we will be withdrawing from conflicts around the globe?

Mr. MULVANEY. No. That is exactly what it is. We took advantage of the opportunity, given the increase in the caps, to move stuff that should not have been OCO in the first place onto the base so that the OCO number more appropriately reflected OCO, which is the overseas contingency operations, the war budget, for example. So no, it actually accomplishes, if we choose to do it together, exactly what you and I set out to do several years ago.

Mr. WOODALL. And it is obvious from your seat now why we require an extra OCO account as opposed to moving that in? In the absence of a caps system of any kind, it does not seem to be a necessary component.

Mr. MULVANEY. It does. I have learned that. Also the importance of the supplemental process. For example, we came to the supplemental request last fall to deal especially with the North Korean threat and some of the things we wanted to accomplish immediately regarding missile defense and so forth. So, some of the flexibility that OCO gives, some of the flexibility that emergency supplemental gives are important. It is also important at the same time not to abuse them and to use them for things that they were not originally intended.

Mr. WOODALL. I appreciate what you all are doing to squeeze every nickel. I would call attention to the Corps of Engineers funding particularly in the out years. As you know, we have a big project going on of national significance at the Port of Savannah in

Georgia. Is there any conversation about what would be pennywise and pound foolish in terms of reducing some of those infrastructure investments when those investments are so close to paying off?

Mr. MULVANEY. A couple different things. Obviously, you all set aside a good bit of money in the emergency supplementals that might be available to other Army Corps projects, which could free up money for projects like Savannah. We also offer some new ideas on how to do capital spending, capital budgeting. Not doing a full capital budget. But I look forward to talking to you about that in more detail because there are some ideas floating out there that could be extraordinarily productive.

Mr. WOODALL. Thank you very much for your service. Mr. Chairman.

Chairman WOMACK. Ms. Schakowsky from Illinois.

Ms. SCHAKOWSKY. Thank you, Mr. Chairman. Thank you, Mr. Mulvaney, and thank you for meeting with Democratic members yesterday. Appreciate that.

Last year, I asked you about proposed cuts to Social Security Disability and cuts that are repeated in the 2019 budget. You told me, "Social Security Disability is not Social Security. Social Security Disability Insurance is disability insurance. It is a welfare program for the disabled." And I wanted to give you a chance to clarify the answer, but I just want to say that it was added to Social Security in 1954 and the money for both, the retirement and disability, are paid for by everyone through the same FICA contributions and yet you distinguish them. So, I wondered if you could clarify your answer.

Mr. MULVANEY. Sure. And I think—and I do not remember the exact context but I do remember talking with you and with others about it last year—was regarding the President's promises and I think what I tried to make the case last year could make again right now, will make again right now, is that there is something different about Social Security Disability.

There is something different about SSI as well and what a lot of people associate with Social Security, which is old-age retirement. You are absolutely correct. SSDI is funded through FICA. It is managed through the Social Security Administration. SSI is not funded through FICA, I do not believe. But again, neither of those are what a lot of folks would consider mainline Social Security.

Ms. SCHAKOWSKY. Even though a lot of people might think of it as retirement it is also an insurance program for families, right? So maybe many people do not think about it as for widows and children as well. Regardless of what people think about it, I would argue that it is Social Security. Let me ask you about just SSA, the Social Security Administration.

So, the operating budget for the Social Security Administration dropped 11 percent in real terms from 2010 to 2017. Last year, SSA reported that the average hold time on the phone when you call is 16 minutes, up from 3 minutes in 2010. Half of callers hang up before getting services and 12 percent get busy signals. So do you consider that an acceptable level of customer service for Americans?

Mr. MULVANEY. Having served in your position—you have been a Member of Congress for 6 years—I do not like the wait times and the hold times any more than you do.

Ms. SCHAKOWSKY. Are you saying that it is mismanaged in some way?

Mr. MULVANEY. No, and I apologize, Ms. Schakowsky. I am not as familiar with this off the top of my head so I am looking at our notes on this right now. But it looks like that part of the argument we make is that the Social Security Administration has not done as good a job as it probably can on modernization, on its IT work, and it could do better than that. We have asked many other agencies to become more efficient. We are asking SSA to do the same thing.

Ms. SCHAKOWSKY. So the 2019 request for the Social Security Administration is 5 percent lower than the current funding level, and meanwhile SSA is expected to serve an additional $1 million beneficiaries each year as baby boomers retire. So, how is the Social Security Administration supposed to handle its increased workload and fewer resources? I am sure all our agencies probably could be more efficient but it seems to me with the tremendous increase in need that SSA is in a very difficult position without more resources. I wonder if you could comment.

Mr. MULVANEY. I think yeah, we have asked many administrations, many parts of the bureaucracy, to be more efficient. A lot of them have been slow to take up improvements in their systems simply because they have not been required to. They have always resolved their problems by asking for more money and often getting it. And until you force them to start making some difficult decisions, they will not change.

Ms. SCHAKOWSKY. Well, I certainly hope you will look at that because the service aspect is very important to consumers in every single district in this country. Regarding Social Security Disability Insurance, the wait time for hearing decisions for disability claims spiked to 21 months in 2017. Those claims go through the Social Security Administration. This budget proposal to limit retroactive SSDI benefits for Americans with legitimate disability claims at the same it cuts funding for Social Security Administration is a real problem.

Mr. MULVANEY. Actually, there we agree with you and think that our research indicates that part of the difficulty, in fact a good part of the difficulty when it comes to the delay on SSDI and some of the other programs, is the administrative law process. We are not the best at hiring in that particular area, and our proposal includes a way to reform that program so that we can actually get decent ALJ—administrative law judges—in there to move things through the system. I think what you will see, the research would indicate that there is actually a small number of judges account for a large part of the backlog.

Ms. SCHAKOWSKY. Thank you. I yield back.

Chairman WOMACK. Mr. Ferguson of Georgia.

Mr. FERGUSON. Director, thank you for being here today and, Mr. Chairman, thank you for recognizing me. I want to start with something that was said early on by our colleague from New Mexico, Ms. Grisham. She talked about the dire straits of New Mexico, 20 percent poverty, right? And I think she invited you to go and see that first-hand. You know, very dire straits in New Mexico. I compare that with my state of Georgia, where we are thriving in many, many areas.

Do not you agree that policy and what is reflected here in the budget should reflect those differences and allow states to have flexibility so that New Mexico can address their issues in a different way than Georgia, and the fact that this budget is growing the economy and creating opportunities for Americans?

Mr. MULVANEY. The administration does not believe that any particular state is condemned to permanent poverty, any group of people is condemned to permanent poverty; that everyone in every state has the ability to improve themselves.

Mr. FERGUSON. Okay. I want to focus for just a minute on the process that we go through here. I find it very disingenuous. I have written an op-ed talking about the big lie we tell ourselves is the budget process. Since 1974 this process has worked, I think, four times properly. We have seen Republicans in the White House, Democrats in the White House, Republicans in control of the House and Senate, and any various form that you want. And yet we are $20 trillion in debt. We have put in budget caps. We have gone down the road of removing earmarks.

No matter what we do we wind up having these same conversations where the minority voice shuts down the government no matter which party is in control, and that is how they get their legislative agenda pushed to the front. Do you agree that we need to reform our budget process?

Mr. MULVANEY. Absolutely. And would look forward to working with you on ideas. Again, I do not think that this is the chamber that is necessarily broken at this particular time.

Mr. FERGUSON. That is an interesting perspective. I think the entire process is, and while this chamber, while the House may be doing some really good work and strong work, we have to do it in the context of realizing that we have got to do this in conjunction with the administration and the Senate.

Mr. MULVANEY. We do. I just point out as, I think, someone else pointed out rightly so that you all have actually done a pretty good job of passing the appropriations bill since I have been here. I think we have passed them more often than not. I think they get out of Committee a good bit. Sometimes they do not get across the Floor but I think last year you all passed all 12 of your props' bills, so, you are to be commended for that.

Mr. FERGUSON. The other thing that I want to touch on, and everybody, we have had a lot of conversation on this today. And that is the mandatory spending side of the equation. What I think we have got to do is we have got to change how we have this conversation. We sit in this particular hearing and look at how we frame the conversations. It is either you are cutting or you are doing something crazy to it.

I mean it becomes a very political environment. Our side demonizes the minority party. The minority party demonizes us. And we are not having an honest and transparent conversation about what the future of these programs look like, where we can keep our promises to our seniors.

Yet we can have an honest conversation about what the future of those programs looks like for somebody in their 50's, 40's, and 30's. How do you think we should go about having that conversation differently, realizing that the only way that we are probably going to be able to do that is for that to be a bipartisan conversation?

Mr. MULVANEY. You know, I do not know if I have any magic answers to that, Mr. Ferguson, as to how to solve the toxicity in the government right now. I think that a good start would probably be to get back to regular order.

I cannot tell you, and this is not the question you asked, how disappointed I am and we are, as an administration, that Mr. Schumer is holding up debate on DACA in the Senate. He may have relented and allowed it today, but for the last day or so did not allow something that he insisted on having in the first place. It was a golden opportunity.

You have probably not even seen real debate in the House. I only saw it once in the 6 years I was here. There are folks in the Senate who are really welcoming the opportunity today to have a floor debate on an issue with everybody able to offer their ideas and have them voted up or down. That is a fantastic concept. I just wish it would be allowed to run its course.

Mr. FERGUSON. One final thing. We have had a couple of hearings with the Congressional Budget Office on scoring. One of the things that strikes me is that the CBO, I asked the question do you have accurate number, if you go for any 10-year period, your projections in year one, how accurate were they in year 10?

And they only get to year 6 and yet there is no data and no determination of accuracy in year 7, 8, 9, and 10. Yet we are being asked, and every Congress has been asked, to make 10-year budget decisions on a number that we have absolutely no idea how accurate it is. How would you address that?

Mr. MULVANEY. The 10-year budget window is voluntary. I think the act does not specify the amount of window you have to take. Different administrations have done five, seven, 10. We looked at the possibility of doing 20. So if that is an issue to you, I encourage you all to look at possibly doing longer or shorter budgets. Again, really what matters, that when the rubber meets the road is this year and next, right? The rest of it is aspirational and a messaging document.

Mr. FERGUSON. Thank you.

Chairman WOMACK. Mr. Arrington, Texas.

Mr. ARRINGTON. Thank you, Mr. Chairman and thank you, Mr. Mulvaney, for your heart for public service, and your love for our country, and your support for our President. I am encouraged by what I have seen, the results and the actions of this President, and so I want to start with a praise that this President has put our safety and security first. And it is about time. And our troops are desperately in need of those resources, so thank you for that and I want to say through you to him how much I appreciate his unwavering commitment.

Also, from a national security perspective, to border security, and then, of course, your efforts and his efforts to support our moving tax reform through so we could unleash the full potential of our economy. In west Texas, I can tell you our folks are delighted with keeping more of their money and jobs coming online and wages increasing. And so, there is just hope for a better and brighter tomorrow for their families.

And I think the best thing, though, from my perspective, that this President has done, and it is what is most needed in this country—it is not changing of the course that we were on over the last several years, although I am fully committed to that and obviously by his actions he is and you are. But it is the change in the culture. See, he has done exactly what he said he would do. Now, I wish he said he would take on entitlement reform in a much bigger and more meaningful way, but he has done exactly what he said he would do, and he is a promise keeper and I appreciate that.

I wish we could add to his proposition of promises that we would go more aggressively at what I believe is the greatest threat to the future of this country and to our children and grandchildren. And I believe you believe that. It is obvious by looking at you and others that this is the beginning of Lent.

This is Ash Wednesday, and the theme is repentance for the church. And just to kind of borrow from that and in the spirit of Lent, repentance means to turn from something, turn away and go a different direction. Where do we need to repent, Mr. Mulvaney, in this government with respect to our spending, our budget, and fiscal reforms? Where do we need to repent the most?

Mr. MULVANEY. Well, every dollar is a dollar, Mr. Arrington. And every dollar you can save is one fewer dollar that you are going to not have to borrow, which is why our budget, we think, does offer an idea on how to save a bunch of money.

Now, we do focus on the non-defense discretionary side of the budget, but we also, as I mentioned earlier, have $1.7 trillion of reductions in mandatory spending over the course of the 10 years. So, we are open-minded about how to do better. We think this is one idea and a really good idea on how to get off of that road to permanent trillion-dollar deficits, but we look forward to working with both parties to see if there are ways to supplement this or do things in addition to it.

Mr. ARRINGTON. And I appreciate the efforts to reduce spending on both sides of the equation, mandatory and the non-defense discretionary, while we are making the appropriate investment in our military and other core functions of the government.

But I know you know that if we are really going to solve the debt issue and stave off a crisis and commit to our children a strong, safe, and free America, we have got to go bigger on these entitlement reforms. And I think the issue is the political will just is not there, that I have observed in Congress, to do that.

But this President is a fighter and he has got amazing will and he has risen above what is the typical political culture, and I just plead with him through you to make this a priority. Everything he has made a priority and everything he has promised, he has done. So I just, I want him to embrace this. For such a time as this he is there and—what do they say? Leaders do the right things; managers do things right. This is the right thing. You know it. I know it. The American people know it. And I think he could make a big difference there. That is just my two cents.

Mr. MULVANEY. And I will certainly deliver that message, thank you, Congressman.

Mr. ARRINGTON. I come from a big swath of rural Texas and as you know, these are the food, fuel, and fiber producers. These are the backbone of this country from a traditional American value standpoint, but they do not just contribute to our economy. They contribute to food security and energy independence. Now, 75 percent of the geography—rural America. But one of only every six Americans lives in rural communities, but virtually 100 percent of the food, fuel, and fiber produced by these country boys and country girls living in country places. Thank you for the commitment to rural infrastructure.

Tell me how that process is going to work and how would broadband and access to the internet, which is not having in 50 percent of rural communities, and you know it is the underpinning for the economy and the community, et cetera.

Mr. MULVANEY. Very quickly; what we try to do is a large portion of the infrastructure bill is focused on things that we know could cash flow, could generate receipts: an airport, a port, a toll bridge, that type of thing. But we also recognize in a large of the country, as you mentioned, those models do not work, which is why we earmarked, for lack of a better word, I think it is $50 billion for things specifically like rural broadband, because we know they are absolutely critical to the long-term infrastructure of the country, the long-term economic health of the country. And that they could not be leveraged the way that other programs might be.

Mr. ARRINGTON. Thank you. I yield back.

Chairman WOMACK. To Michigan. General Bergman.

Mr. BERGMAN. Thank you, Mr. Chairman, and is there anybody left other than me? Okay. I was going to say I am last, but I guess I am not last.

Mr. MULVANEY. We still have the Ranking Member, too, so. That is what I am sticking around waiting for.

Mr. BERGMAN. But I would like to start with a general comment, small G. In being from where I am in the first district of Michigan, I have got more big water, Great Lake shoreline bigger than any other district in the country. And the Great Lakes are truly our lifeblood and not only of our people in our communities but also our economies, when it comes to the types of industries we have up there. And notwithstanding that 20 percent of the world's fresh surface water resides in the Great Lakes.

So the Great Lakes is a, I would say a global resource, definitely a national resource that we need to preserve and make sure it is healthy.

A year ago when we came out with the Great Lakes, the original Presidential Budget, the Great Lakes got, you know, cut to zero. The Great Lakes Restoration Initiative. Working with some colleagues, we got it funded back to the 300 million.

I see in this budget, it concerns me, a 90 percent cut. There are about 3,500 line items in that GLRI, and I would suggest to you probably about 10 percent of them are being spent in such a way that we need to give them more money because they are great stewards. And 80 percent are probably doing okay. And there is probably 10 percent that that funding line needs to dry up.

But my concern in this budget right now is that with that 90 percent cut. I am hopeful to work with the administration and my colleagues in those 22 other districts that border the Great Lakes to work with you to make that number realistic so that we truly, as we look at the health of our natural and national resources, that would be fresh water, that we do not make a mistake there with this 90 percent cut.

Now, we agree on more than we differ. And that is the beauty and why I am excited positively about the budget. But I have a couple of questions on the opioid crisis. We have started about a month and a half ago in the district to have listening sessions with the people who are boots on the ground—you know, the healthcare providers, the courts, the law enforcement, the social workers, the teachers, all of that—to find out what it is like in our district, what we are dealing with.

So when we come to a national level of how do we handle this addiction crisis, any thought or detail you can give me on how this 20 billion that has been allocated, how it is going to be allocated on the front end here?

Mr. MULVANEY. Sure. A couple different things. And you may not have heard me mention before, I would encourage you to not be misled by a reduction dealing with opioids that appears in the budget that is not a true reduction. There is about a 95 percent reduction in the line item for the ONDCP, the Office of National Drug Control Policy. All that reflects, Congressman, is a move of the grant programs that currently resided in that program over to the Department of Justice and HHS.

So please do not be misled and allow people to say that is an indication of our lack of commitment. All we did was move them to where they thought they could be better administered.

So we will do that. Some of the money will be spent, as I mentioned earlier today, on NIH programs to try and develop non-addictive alternatives. We also have a proposal in this budget, I have not mentioned it before, to cover methadone treatment in both Medicare and Medicaid. We also have money set aside for a fairly aggressive national ad campaign to try and discourage people from taking——

Mr. BERGMAN. Well, since you have answered it a couple times I apologize. I was in and out.

Mr. MULVANEY. No, that is fine, and I did not mean say——

Mr. BERGMAN. Thank you.

Mr. MULVANEY. I honestly forgot what I have said a couple times already, so.

Mr. BERGMAN. It does not hurt to repeat good, solid policy. Any update on the status of the DOD audit?

Mr. MULVANEY. Yes, sir. They are undergoing now and I think you saw the first fruits of it this past week, where they said they had discovered about $800 million's worth of improper payments. I want to be very clear on that, by the way. First of all, the system is working. The reasons we found that money is because they have prepared themselves for audit and they are going through the process now, and they are able to find stuff that they would not have found before. So that is good.

I do want to point out, however, that just because we say it is an improper payment does not mean we sent a dollar to you and we should not have. Improper payments also include sending you 95 cents when we are supposed to send you a dollar or $1.02 instead of a dollar, or not having the paperwork. So I think it will be curious to see what type of improper payments they discover.

Mr. BERGMAN. I have 15 seconds left. Any final thoughts on does this budget really start to look at duplicative actions and how do we eliminate those?

Mr. MULVANEY. We could do an entire hearing on the number of programs that we condense because they are duplicative.

Mr. BERGMAN. Thank you very much. I yield back.

Chairman WOMACK. Gentleman from Indiana, Mr. Rokita.

Mr. ROKITA. I thank the Chairman. Thank you, Director Mulvaney, for being back.

Mr. MULVANEY. Hello, Mr. Rokita, sir.

Mr. ROKITA. Yes, and Happy New Year. Appreciate your work. We all saw the benefit that the people of South Carolina saw with you when you were a member of Congress and now the whole country is seeing your work. Greatly appreciate your leadership, sir. Greatly appreciate the President's leadership.

I am particularly heartened to see that in your budget you are calling for the idea that Federal employees, when they do a bad job, can actually be fired. And at the same time, you are proposing a bonus pool so that Federal employees who do a good job, and there are those who do excellent work, who serve with servant's hearts like you do, for the people who understand that when some professions, when you enter them, it is not about you. It is not about yourself. It is about service to others.

The Federal bureaucracy used to be that way a long time ago, but now the average salary for a Federal public official is sometimes double that of a private-sector counterpart and, you know, all things being equal, that is not right.

Mr. MULVANEY. And I do not want to interrupt you, Congressman, but 99.7 of them get their performance bonuses every single year—performance increases.

Mr. ROKITA. Yes. And you are reforming that, so count me in as a soldier in that effort to reform that effort. Like I was saying, bonus pools for those who actually do a good job. You know, I think that is the right way; make this place run like more of the private-sector counterparts, again recognizing that some professions are about public service and service to others.

I have a pay check, by the way, that would do a lot of these things from two Congresses ago. We still continue to fight for it, so again, if you could have your staff note that I would be happy to help in these efforts, this part of the budget.

Inland waterways. You are proposing some for the industry for a lot of us some pretty bold ways to make ends meet, help our infrastructure. I come from a state that values and has successfully privatized different assets.

We never turned them over to an industry or various users of an industry. It was always about putting out the concession to be run and seeing who had the best bid and who we wanted to run it and what the best deal was, but at all times the legislature kept control of fees and caps and what could be done and made sure people had the equal access and all that.

We had this discussion a little bit the last time when we talked about air traffic control. Now it is not the same as air traffic control but it is an idea that we might turn over the inland waterways, the operation and maintenance of locks and dams and those things, to private actors. The industry puts in about $100 to $200 million of a $1 billion yearly operational cost. So, I do not think the industry can take all that on. There has been some concerns. I think we ought to work on it.

I think you should, if you do not mind, the Olmsted Lock and Dam Project. It, for years, was ballooning in costs. Previous administrations were letting cost overruns control. It is not unheard of for the corps to get halfway through a project, Mick, and then stop.

But as I have talked with you about the Olmsted Project, it is going to get done now because of an adjustment in the cost-sharing formula that we were able to do on the Transportation-Infrastructure Committee. It is going to come down under budget, come in under budget and ahead of schedule; and it was heading for disaster.

I do not have to tell you, given your previous work, about the disaster it would be if we cannot get grain and steel and all our raw products out of our inland waterways and onto the world market. It is helping with our trade deficit.

So I would encourage you and your staff and the administration to look at the Olmsted Project as a poster child for, you know, just say you do not get the votes for privatization for the inland waterways. You know, a few crazier things have happened in Congress than not getting the votes, but this might be privatization-lite or way too organized——

Mr. MULVANEY. Keep in mind, the infrastructure bill, and the reason I say this is that name has come up before, so I know we have looked at that as a potential model. There are a bunch of different models. One of the beauties of the infrastructure bill, Congressman, is not that it is married to one program. You do not have to have privatization. You do not have to have public-private partnerships. You could do concessions. You could give states financial incentive to sell the stuff that they have now and to move it off of their books. There are a bunch of different models and we do look forward to working with you on examples of things that actually work.

Mr. ROKITA. Great. Thank you, sir. Jodey Arrington eloquently put forth the argument for automatic spending reform. I do want to note, and you may have talked about this earlier, you are doing some autopilot spending reform in terms of TANF, SNAP, and some of the other programs, correct? And how much will that yield?

Mr. MULVANEY. Honestly, Congressman, off the top of my head I have no idea what those proposals are because the number gets wrapped in with some of the other reforms that we——

Mr. ROKITA. It will keep compounding and returning savings even outside a 10-year window.

Mr. MULVANEY. That is absolutely correct. These are structural returns that reap benefits for many years.

Chairman WOMACK. I thank the gentleman. And finally, he reserved his questions to the end, and I am pleased to recognize the Ranking Member, Mr. Yarmuth from the Commonwealth of Kentucky.

Mr. YARMUTH. Thank you very much, Mr. Chairman. Director Mulvaney, thank you for hanging around this long. In the spirit of Valentine's Day, I will be very nice.

Mr. MULVANEY. Thank you for having me and for being nice.

Mr. YARMUTH. Now, any discussion of the budget is going to involve a judgment as to what the appropriate role of government is, and many of us in this room have different philosophies about what is the appropriate role of the Federal government, what we should be doing more of and less of. And I think that is a very healthy debate to have always.

But it has to be an honest debate, and that requires that we make sure the American people understand the discussion we are having. So, with that in mind, this week on Face the Nation, you were asked about the spending levels of the President's budget, and you said that the Democrats—you said this actually again today, "would not give us a single additional dollar for defense unless we gave them dollars for social programs." And, again, you made a similar comment earlier today.

Mr. MULVANEY. Yes, sir. I believe those are my words.

Mr. YARMUTH. So with that in mind, I want to ask you do you consider the FBI a social program?

Mr. MULVANEY. No, sir. And I see where you are going. Non-defense discretionary is a better description of that money. Yes, sir.

Mr. YARMUTH. Right. So, okay, I will not go through the laborious task of going through everyone, but whether it is DEA—Drug Enforcement Administration—veterans' healthcare, Centers for Disease Control, the FDA, TSA, IRS, the Federal court system, NIH, Census Bureau, ICE, border patrol. These are all things that are in the non-defense discretionary side of the budget.

Mr. MULVANEY. And I hope we have your support for increasing spending on those types of things.

Mr. YARMUTH. Well, you know, we know what happens when people say social programs. Many Americans think welfare. As a matter of fact, Mr. Lewis used the terms interchangeably. I think Mr. Grothman did the same thing, and we actually kind of ran an analysis and we made our own definition of social program, and we defined it as something that is based on income. Okay?

Mr. MULVANEY. Means tested.

Mr. YARMUTH. Means-tested programs.

Mr. MULVANEY. Okay.

Mr. YARMUTH. With that standard in mind, basically somewhere less than 11 percent of non-defense discretionary could be categorized as a social program. So, again, I hope we never get to the point in this debate or in this country where we are trying to pit tanks against teachers or many of these other things—border security against soldiers—things where we would argue that most of the non-defense discretionary side of the budget is as much involved in national security—whether it is physical security, economic security, or personal security, health security—as the defense budget. So I would appreciate it if you——

Mr. MULVANEY. Again, your point is well-made. I do not know if I would go as far as you would, which is not surprising, since we have different political philosophies, to say that some of the matters that you have addressed are as critical as national defense. They are critical. There is no question. But in terms of the prioritization, which is what this discussion is about, right?

Mr. YARMUTH. Always is.

Mr. MULVANEY. We have, regardless of how big the pie is, at some point the pie runs out. We can choose to borrow nothing or $1 trillion, but there are limited resources at some level.

Mr. YARMUTH. Absolutely.

Mr. MULVANEY. What the priorities are, and I think that is what the debate is about.

Mr. YARMUTH. I always agree with you on that. Now, with that in mind, we are talking about adding to the Federal budget, the defense side of the budget, essentially $195 billion over 2 years: 80, 85, and then some other things.

Mr. MULVANEY. It is 165 before you count—it is $80 billion in 2018; 85 in 2019; 165 billion. And a lot of it depends on how you want to call it OCO in the out years. But that is a rough estimate. Yes, sir.

Mr. YARMUTH. Exactly. Okay. Plus or minus, we will say, 195 billion. A huge increase in what we are spending on defense. Absolutely a huge amount of increase, and you have already mentioned that, until January, the Pentagon has never been audited. They have begun an audit. Just in the initial stages they have discovered billions of dollars that they cannot account for.

And my question is with an increase like that, which I think amounts to about a 14-percent increase overall in the defense budget—close enough for government work—that we have done this. And I know the defense committees, the Armed Services Committee meet and they do an authorization bill and so forth.

But my question is has the administration really dug into the question of what this military needs and what our missions are? Because as I recall during the campaign, the President has been unabashed when talking about basically reconsidering our role throughout the world, talking about our involvement in Afghanistan. And so, that is my question to you, is what kind of review of our military objectives, our short- and long-term military needs are?

Mr. MULVANEY. Yes, sir. The answer to your question is yes. I have been extraordinarily impressed not just with Secretary Mattis, who is the one everybody recognizes. But there is a Deputy Secretary by the name of Pat Shanahan, who came over from the Boeing Corporation. I believe he was able to turn around their 787 program, and he is sort of running the business of the Defense Department right now, and he and I work together regularly.

And I think he would be able to convince you, sir, that this is not a number they have picked out of the air. In fact, it is the entire opposite. I think they have backed into a strategy-driven amount of money.

We have often talked about that here, which is instead of picking a number and then picking a strategy, pick the strategy first and then figure out what it costs to do that. And I think that is how they got here. I would be more than happy, you and I and Secretary Shanahan, go to lunch and talk about that because I am absolutely convinced that they are doing the work necessary to justify these types of requests.

Mr. YARMUTH. I would really appreciate that opportunity. So we talked about Medicare earlier, cuts in Medicare, and you basically, I think, claimed that it was unfair that we talk about cuts to Medicare because we are not cutting patient care. We are actually just cutting——

Mr. MULVANEY. No, sir. I was trying to discourage that $500 billion number, as I mentioned to you yesterday in private. I did not think that was accurate, but go ahead.

Mr. YARMUTH. Okay. Well, I was going to say, whatever the number is, if it is $200 billion that it is going to be reduced or whatever it is, I vividly remember in 2010—and now while I was not following your campaign individually very closely—I know Republican candidates all over the country were beating us to death with the fact that we were proposing to cut $750 billion out of Medicare, when in fact none of that came out of patient services.

Actually, we expanded patient services and we were crying foul. So if we beat you over the head with it, your party over the head with it this year, I hope you will not cry foul.

Mr. MULVANEY. I will cry foul as you probably did in 2010 and the Republicans will not believe you and the Democrats will not believe me.

Mr. YARMUTH. That is probably right. So, you compare your current tax revenue estimates in this budget to last year's CBO baseline. Given that we do not have an updated CBO estimate yet based on the Tax Act that was enacted, to get an apples to apples comparison, let's instead look at how your estimates changed from last year to this year. And you estimated, last year, $3.7 trillion more in tax revenues over the period 2018 to 2027 than your current estimates. How much of that reduction and revenue projection is from the tax cut?

Mr. MULVANEY. Roughly 1.8 trillion.

Mr. YARMUTH. 1.8 trillion, okay.

Mr. MULVANEY. And I would be happy to explain the difference between the 1.8 trillion that the OTA came up with at Treasury and the CBO. You all scored it at 1.5. We scored it after the fact at 1.8. The difference is the way that the CBO and the Treasury, who does all these numbers for us, deal with the individual mandate.

CBO has often said that if you get rid of the individual mandate, folks will drop off of Medicaid, and that actually generates a huge savings. We simply do not believe that to be the case. So we do not believe that we will experience the same savings from folks not taking Medicaid as the CBO assumes.

Mr. YARMUTH. Okay. So, basically, half of the change in revenue estimates is that you are projecting this budget came from tax cuts. Okay.

Mr. MULVANEY. Yes, sir. Another $0.5 trillion, as you and I, I think, discussed yesterday, came from the extension of the individual tax rate reductions. The law that passed phases that out, I believe, after 5 years. We have it being permanent.

Mr. YARMUTH. Right. Got you. One quick question and this is not a contentious question at all. I am just curious. And I do not know what you have in your budget, but you talked about interest rates and you are projecting that interest rates actually stay fairly low over the period.

Mr. MULVANEY. Yes, sir. I could read them to you, if you like, or I can share them with you.

Mr. YARMUTH. No. I just referenced, because I know over the past 6 months the 10-year Treasury note has gone up by 70 basis points, which is a pretty significant rise in a short period of time. So yeah, just out of curiosity, what do you project?

Mr. MULVANEY. For the 2019 budget, 3.1—this is a 10-year number. So we are talking apples to apples because I think the reference and the 70 basis points is to the 10-year.

Mr. YARMUTH. Ten-year number. Right.

Mr. MULVANEY. 2019: 3.1. 2020: 3.4. 2021: 3.6. Then 3.7, 3.6 out to sort of the end of the 10-year budget window. Again, we are slightly higher than the CBO baselines from January 17th. A little bit lower, perhaps, than their numbers from June, and then roughly in line with the CBO for the out years.

Mr. YARMUTH. Okay. Thanks for that information and thank you for your testimony. I greatly appreciate it.

Mr. MULVANEY. It is always a pleasure. Thank you, sir.

Mr. YARMUTH. I yield back.

Chairman WOMACK. I thank the Ranking Member. Director Mulvaney, you have been very generous with your time today.

Mr. MULVANEY. I think I have destroyed your table here, Mr. Chairman.

Chairman WOMACK. That is quite all right. We will add that to the budget. Members are advised to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record. Any members who wish to submit questions or any extraneous material for the record may do so within 7 days. And with that, the Committee stands adjourned.

[Whereupon, at 1:07 p.m., the Committee was adjourned.]

Questions for the Record

To: Chairman Steve Womack, House Budget Committee
From: Congressman John Faso
Date: February 21, 2018
RE: Hearing: "The President's Fiscal Year 2019 Budget"

I would like the witness present at the House Budget Committee's February 14, 2018 hearing to please respond to the following question for the record in writing -

> Hospital outpatient departments (HOPDs) in rural, urban, and suburban areas are a principal source of primary care and other physician services for many New Yorkers. In some communities in my district, hospital-based clinics are the only source of patient access to physician services. Hospitals and health systems have been forced to absorb reductions under the site-neutral policy that became law as part of the Bipartisan Budget Act of 2015. Importantly, however, in passing the law Congress acknowledged the crucial role of HOPDs by allowing for a "grandfather" provision to ensure that existing HOPD sites would be able to maintain access to critical services without suffering payment reductions.
>
> Eliminating the "grandfather" provision, as proposed in the President's FY 19 Budget, would provide significant difficulty for HOPDs, resulting in possibly steep reductions in patient access to care. What is planned by the Administration to protect these critical facilities as Congress intended?

Rep. Faso

Hospital outpatient departments (HOPDs) in rural, urban, and suburban areas are a principal source of primary care and other physician services for many New Yorkers. In some communities in my district, hospital-based clinics are the only source of patient access to physician services. Hospitals and health systems have been forced to absorb reductions under the site-neutral policy that became law as part of the Bipartisan Budget Act of 2015. Importantly, however, in passing the law Congress acknowledged the crucial role of HOPDs by allowing for a "grandfather" provision to ensure that existing HOPD sites would be able to maintain access to critical services without suffering payment reductions.

Eliminating the "grandfather" provision, as proposed in the President's FY 19 Budget, would provide significant difficulty for HOPDs, resulting in possibly steep reductions in patient access to care. What is planned by the Administration to protect these critical facilities as Congress intended?

Most hospital-owned physician practices located off the hospital's main campus receive a higher payment rate from Medicare than practices not owned by hospitals. The Bipartisan Budget Act of 2015 addressed this inequity for new off-campus facilities, but grandfathered facilities in existence at the time. The Budget would equalize Medicare reimbursement for all physician practices and off-campus facilities, regardless of whether they are hospital-owned, lowering out-of-pocket costs for seniors receiving services at those facilities.